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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE  
BRITISH COMMONWEALTH

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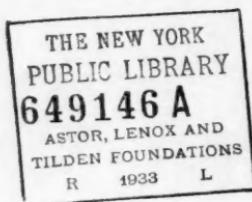
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# THE ROUND TABLE

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THE BRITISH COMMONWEALTH



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DECEMBER 1931 TO SEPTEMBER 1932  
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Great Britain and the Financial Earthquake  
since a but gradually increasing number of voices are  
beginning to be still louder, — voices which used to be  
of an overwhelming force, — which in their time  
were indeed the voices of the nation, — and the  
same voices which, in the days of the last century, were  
the voices of the nation.

## **GREAT BRITAIN AND THE FINANCIAL EARTHQUAKE**

**T**HE need for the National Government and the justification of its recent appeal to the electorate both lie in the magnitude of the tasks which now face any Government in this country. The nation has shown by its votes its recognition of an overriding emergency. The value of that demonstration is not easily exaggerated, whether at home for its assurance of stability and of a reawakened self-respect, or abroad as a challenge to the prophets of British decadence and a stimulus to governments and peoples caught in the grip of problems not less oppressive than our own. The popular verdict is in no way less striking because it is a vote not for a policy so much as for an attitude of mind. There is, indeed, no evidence that the electorate wished to bind its leaders to any set of detailed measures for meeting the emergency, and the Government is free to approach both the national and international aspects of the crisis with no duty imposed on it except that of showing courage and energy and an unbiased mind.

It may be useful to sketch the conditions in which the new Government will have to work, to indicate the problems which are amenable to its action and those which are not, to suggest reasons for thinking that certain forms of treatment are more likely to be efficacious than others. This may seem a modest objective, unworthy of a crusading age. Yet it involves an investigation, perfunctory perhaps and not professional, into the pathology of those diseases which

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are preying on the world's economic organism, and a study of their effects on our own economic life and of the state of general health in which their attack came upon us. It will be found that national and international problems are in one sense inextricably interwoven and in another sense quite distinct. Our national difficulties may be increased or diminished by action taken abroad with or without our support. On the other hand, there are measures which we in Great Britain, and we alone, can carry through, and which in any conceivable course of international developments can only strengthen our position. Indeed, it may well appear that the extent of our influence on international arrangements must depend largely on the success or failure of our efforts to set our own house in order. For like any individual or institution or State well known to be financially embarrassed, we have lost prestige and our credit is impaired, and in such circumstances no creditor, no disinterested observer even, can be persuaded at all readily to subordinate his suspicions to a reasoned enquiry whether the embarrassment is more than temporary. By common consent the first and paramount objective of the National Government will be to restore the financial credit of Great Britain.

### I. THE WORLD BEFORE 1914

**T**HE world to-day is in the grip of an earthquake, and the complex structure of international credit is shaken to its foundations. Just as an earthquake in the physical world has its origin in profound disturbances of the nature of which we have neither complete nor exact knowledge, so too an element of doubt, almost of mystery, surrounds the economic collapse which we are now witnessing. At the best, our analysis must be partial, our judgments approximate; our belief that another policy in this or that particular would have changed the face of the world can be little more than a probable speculation. Yet

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if the details are blurred, the general outlines are clear. Perhaps the most direct clue to an understanding of the present state of the world can be obtained if we look back to the working of the system of international credit before the war and then turn to consider the conditions in which that system has had to operate during the last ten years.

For three generations before 1914 the world passed through a period of peace and growing prosperity. It is true that peace was not absolute nor prosperity constant or universal. War was always in the background, at intervals it held the scene ; the spectres of financial crisis and economic depression were never exorcised. Yet the effects of war were kept within bounds, and through all variations the curve of prosperity was a rising curve. In spite of every lapse from grace the peoples of the world had laid firm hold on the truth that the foundation of all wealth is the free exchange of goods and services. In laborious days they cultivated the arts of peace. Barriers to international trade were broken down by the elimination of customs frontiers, the decay of private privilege, the improvement of all the means of transport and communication. Tariffs, where they existed, were moderate ; the Chauvinist was slow to stray outside the sphere of politics. The two great creditor nations of those days, Great Britain and France, invested their favourable balances, steadily, methodically, in the newer countries—in their own dominions, in North and South America, in Russia, in the Far East. These investments were for the most part applied to reproductive development—in building the railways of the Argentine or of Russia, in port works throughout the world, in the irrigation of Egypt, in the mines of the Witwatersrand. They were made not by speculators, but by investors, rich and poor, who cast their bread on the waters. By this constant flow of capital to the ends of the earth trade was immensely stimulated and a market created for the products of the great equipment industries, iron and steel and engineering.

## Great Britain and the Financial Earthquake

Foreign investment on the scale of the last fifty years would have been impracticable if, on the monetary side, the nineteenth century had not evolved the delicate mechanism of the gold standard. By the device of fixing the value, in terms of gold, of the unit of account in each civilised country, the world contrived to maintain relative stability of the exchanges and approximately similar movement of price levels in all countries adhering to the gold standard. Thus an investor in England or France, placing his money abroad, could assume with reasonable confidence that his investment would not be jeopardised through violent exchange fluctuations between his own currency and that of the country to which he was lending. The practical working of the gold standard became largely automatic. If, at a given moment, the balance of payments as between England and France was unfavourable to the French, if, that is to say, the French demand for sterling was greater than the British demand for francs, the franc tended to depreciate and a point was soon reached at which it became profitable for a Frenchman, instead of selling unwanted francs in the market, to buy gold with them in Paris and ship it to London in settlement of his debt. Any such influx of gold into England tended to raise sterling prices and thus, by stimulating British imports and discouraging British exports, to counteract the exchange movement which had led to the gold shipment. This tendency towards equilibrium was reinforced by the traditional policy of lowering the Bank rate in any centre, and thus repelling short-term investment there, as gold flowed in to that centre, and raising it, with the opposite effect, as gold flowed out. It was an essential feature of these operations that gold shipments were needed only to the extent and for the length of time necessary for them so to modify the relative price levels of the two countries that the balance of payments tended to correct itself.

In those halcyon days before 1914 the gold standard operated successfully and with comparatively small move-

## The World Since the War

ments of gold, because London dominated the money markets of the world. By reason of our lead in the development of modern industrial civilisation, by our energy and enterprise, we enjoyed over a long term of years a favourable international balance of payments, and our position grew to be one of immense strength. The technical organisation of the London money market was incomparably better than that of any other centre, and for all these reasons the gold standard was in practice operated by the policy of the Bank of England. The central banks of other gold standard countries followed, as it were naturally and inevitably, the lead of London. This predominance of the London market served no merely selfish national purpose, since it is of the essence of any international standard that by its proper functioning it protects indiscriminately the interests of every country which adheres to it, or by its failure brings disaster to them all.

### II. THE WORLD SINCE THE WAR

*"The recent world-wide fall in prices is best described as a monetary phenomenon which has occurred as the result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity set it by a conjunction of highly intractable non-monetary phenomena."*—(The Macmillan Committee, June, 1931.)

FROM whatever angle we examine the economic life of the world since the war, the contrast with the years before 1914 is arresting. We are beginning, indeed, to understand that the war turned the world upside down. For twelve years Europe has lived in peace, yet there is perhaps no period in modern history in which the settled mentality of peace has been more conspicuously absent. Europe has, indeed, illustrated the contrast between war and peace of which Hobbes wrote in *Leviathan*: "The

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nature of war consisteth not in actual fighting, but in the known disposition thereto during all the time there is no assurance to the contrary." France and Germany, Germany and Poland, the Succession States of the Austro-Hungarian Empire—all have been divided by the memory of the war and the terms of the peace, by mutual suspicion and national passions. To the historian this may well appear inevitable, to the economist it can only appear destructive of international economic progress. The war, and even more the Peace Treaties, threw into relief the rights of nationality, and it was an easy, if an illogical, transition from the idea of political autonomy to that of economic "autarkeia." How, if it was wrong for Czechs to be governed by Hungarians, could it be right for Czechoslovakia to be dependent on Hungary for any commodity or any manufacture which it could make shift to produce for itself? On such reasoning, confounding justice with expediency, Europe has sought to organise itself into self-contained communities, defended by prohibitions and restrictions of every kind and buttressed by tariff walls, which were never too high to support another course.

The war left other legacies than economic nationalism, and none which has been a more effective instrument of disorganisation than the settlements relating to war debts and reparations. Unlike every other form of international indebtedness, war debts and reparations are an attempt to repay capital which has served no productive purpose, capital which has added nothing to the wealth of the debtor. The service of that capital, therefore, can never be anything but a surcharge on the industry and trade of the nations which have to meet it. Moreover, time has shown that in practice the problem of the transfer of these vast annual sums from debtor to creditor is in the long run insoluble. Payments between nations can be made only by the export of goods or by the shipment of gold, the sale of foreign assets or fresh borrowing on the part of the debtor. The very scale of the war debt payments made it improbable

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that the debtor countries could so increase their exports as to cover the payments in that way, even if their creditors threw open their doors to the import of goods. Since on balance all payments flowed to France and the United States, and since those countries above all others have insulated themselves against all imports by prohibitive tariffs, payments on account of war debts and reparations have in effect been made mainly by vast shipments of gold to France and the United States. On the other hand, Germany has obtained the necessary funds by raising new loans abroad. It would not be untrue to say that Germany was able to meet her reparations debt for just so long as the United States was prepared to re-lend to Germany some of her gold, and that as soon as the springs of American lending dried up, German default became inevitable.

The world's gold stock in the hands of governments and central banks and the proportions of that stock held by the United Kingdom, the United States and France in 1920, 1926 and August 1931, were these (figures in millions of pounds)\* :—

	1920	1926	August 1931
World stock	1488	1893	2323
Holdings in United Kingdom	155	150	133
Holdings in U.S.A.	504	840	953
Holdings in France	141	146	472

The explanation of these figures is that the movements of gold resulting directly from the war, or the settlements made after the war, were different in kind from those to which the world was accustomed under the normal pre-war operation of the gold standard. The control of the monetary policy of the world passed from the Bank of England and became dependent on international co-operation in conditions which made effective co-operation almost impracticable. What were conceived to be national interests came into greater prominence, and for many and

\* Taken from the Federal Reserve Bulletins. Gold in circulation is excluded, recent figures for the whole world not being available.

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different reasons an influx of gold was not consistently treated as between France and the United States, or as between one period and another. From 1922 onwards the gold accumulated in the United States formed the basis of a vast inflation of credit which led through the speculative boom to the collapse of 1929. Between 1922 and 1929 the United States lent abroad more than £1,800 million and thereby diminished the danger to the world of her gold holdings. But foreign lending never became a settled habit of the American investor; even in the heyday of bond issues, a substantial proportion found no permanent home until it came to rest in Europe; and as the prospect was unfolded of apparently illimitable industrial prosperity at home, lending abroad ceased almost as abruptly as it had begun. Since 1929 restriction of credit and falling prices in America have coincided with a rise in the monetary gold stock\* from £890 million to its peak of £1,027 million in August last. In other words, gold has merely been buried in the vaults of the banks, and has shared the fate of those other millions immured beneath the Bank of France. France has accumulated gold steadily since 1926. The stabilisation of the franc at a level lower than its internal value created a premium on exports and a large favourable balance of trade, and as the Bank of France is debarred by law from issuing further notes except against gold in its own vaults, the increased demand for currency subsequent to stabilisation led to the repatriation of French balances and to a consequent inflow of gold. The relief from foreign lending was negligible. His political prejudices and the loss of his Russian holdings confirmed the national caution of the French investor, and except for loans made within the last twelve months, primarily for political reasons, to members of the Little Entente, the savings of the French people have remained in France or have been placed abroad at short term.

\* *I.e.*, gold held by the U.S. Treasury, the Federal Reserve Banks and Agents and gold in circulation.

## The World Since the War

This sketch of the characteristic features of post-war economics would not be complete without some reference to the technical revolution which has taken place in the methods both of industrial and agricultural production. Mass production owes its main impetus to the war and it has changed the face of the world by creating new needs for ever-widening circles of the population. Yet it clearly carries with it a fatal facility in production. It is a mixed blessing to be the owner, let us say, of the most modern and efficient cigarette factory in Greece, if the test of its efficiency is that it can produce more cigarettes in a day than the country consumes. The consequences of over-production are even more serious in agriculture than in industry, since the demand for agricultural products is in its nature less elastic, less responsive to lower prices than that for manufactured goods. A reduction in the price of motor cars may enable any one of us to buy a new car every year instead of every other year, but even if wheat were given away we should hesitate to eat twice as much bread. The effects of the American inflation have nowhere been more disastrous than amongst producers of primary commodities. As by far the biggest consumer of such commodities, the United States by her prosperity immensely stimulated their production, and the stimulus was fortified by the flow of American capital during the brief and not very discriminating excursion of the United States into foreign lending. With the end of the American boom came the end also of American finance, and the unhappy primary producer finds himself with his market ruined and his debt intact.

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### III. THE CRISIS OF TO-DAY

IT is not difficult from these premises to trace the collapse of the international credit structure. Once the bubble of speculation in the United States was pricked, the rest followed naturally and *accelerando*. In the autumn of 1929 Americans gave public expression through the stock markets to their doubts whether American industry could continue indefinitely to expand, and from that moment industrial production in the United States, which had already passed its peak, declined precipitately. Commodity prices kept step with it, and the world soon realised that its stocks of, and its capacity for producing, wheat and rubber, cotton and copper, coffee and tin, far outstripped any power of consumption hitherto known. And so the decline in commodity prices became a catastrophic fall, and was followed, at a distance, by a fall in the prices of manufactured goods, due both to the lower costs of raw materials and to the restricted demand amongst primary producers.

Perhaps the most important consequence of any violent drop in world prices is the corresponding increase in the real burden of all indebtedness, whether internal or international. War debts, reparation payments and commercial debts between nations have become intolerably onerous during the last two years. President Hoover's moratorium proposal was a courageous recognition of that fact, but it came too late and was received by France in too carping a spirit for it to prevent or even delay the natural course of events. Debtor countries everywhere have lapsed into default. They have begun to feel with Rabelais that "it is a divine thing to lend: to owe, an heroic virtue." In Europe, as in 1914, so in 1931, the spark was fired in Austria. The collapse of the Credit Anstalt was the first real indication that the organism of international

## The Crisis of To-day

banking was infected. The German crisis followed immediately and destroyed the last vestige of confidence by revealing to the world the instability of the structure erected in central Europe on borrowed money. Financial panic follows the lines of least resistance, and there were many good reasons why in the universal disorder the pound sterling should have been next singled out for attack. It was well known that we were heavily involved in central Europe, that our budgetary position was unsound and that our balance of payments was unfavourable.\* Once the world ceased to trust it, sterling was doomed. The technical weakness of our position made its defence a forlorn hope. For a variety of reasons short-term holdings in London on foreign account had increased since the war and in March of this year amounted to over £400 million ; there had been no corresponding increase in our liquid foreign assets, and if we regard the London market as a vast deposit bank, its position was unsound in so far as it was powerless to resist a run by its depositors.

A loss of confidence, in the realm of finance, knows no frontiers and is not amenable to reason. If it exists, it penetrates like some foul gas into every nook and crevice of the financial structure. Having sold sterling off the gold standard, the world began to sell dollars. Since the beginning of September gold has been withdrawn from the Federal Reserve system of the United States or earmarked there on foreign account to the amount of \$692 million. Both in America and in France, mistrust of banks and the banking system has led to the hoarding of currency on a large scale. Wisdom suggests that the end is not yet.

There can be no better illustration of the varied financial problems which confront the world to-day than a brief sketch of the situation in the three contrasted countries of Germany, Hungary and Brazil—the first a great industrial nation which circumstances have turned into a debtor

\* Tables showing the balance of international payments of the United Kingdom and of the U.S.A. will be found in an appendix.

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country, the second an artificial product of the war, and the third representative of that new world of vast resources only partially developed.

Of the political and spiritual adventures of the German nation during its wanderings in the desert since 1918, another article\* in this number of *THE ROUND TABLE* will speak. Its financial history during that period has been dominated by the devaluation of the old mark and the pressure of reparation payments. Inflation and the destruction of the currency left Germany without capital and without the will to accumulate it. German public authorities and German industry have lived since 1923 primarily on borrowed money, and like everyone else who lives on borrowed money, have not always spent it wisely. It has constituted their working capital and the source from which capital improvements have been carried out. It has also provided the foreign exchange necessary for reparation payments. The figures are no longer open to serious dispute. The Committee of Bankers which met at Basle in August of this year found that between 1924 and 1930 there was a net influx of capital into Germany of £910 million, and that in December 1930 German foreign indebtedness amounted to £1,275 million. The net capital influx, supplemented by £150 million derived from invisible exports, provided the interest on Germany's commercial debt, an import surplus of £315 million and reparation payments of £515 million, and in addition enabled Germany to increase her holding of gold and foreign exchange by £105 million. Of the total foreign indebtedness of Germany at the end of 1930 £515 million was short term, and by the end of July of this year this figure had been reduced, through withdrawals, to £400 million.† This in itself explains the German crisis of this last summer. To

\* See p. 71.

† As possibly more quickly comprehensible to an English reader, all figures are given in sterling at RM. 20 to the £.

‡ The German authorities have recently published figures which suggest that the totals are considerably greater than was thought in August.

## The Crisis of To-day

meet this situation Germany has been compelled to obtain a moratorium on her short-term liabilities to foreigners (the so-called "Standstill Agreement," which expires at the end of February next) to introduce government solely by decree and by decree to control and regulate the financial and commercial activity of every German citizen, and to devote all the efforts of her industrial organisation, at whatever cost in the impoverishment of the German people and the further lowering of their standards of life, to the creation of an increasing export surplus. In the judgment of the Bankers Committee, the imperative need of Germany is for long-term credits in partial substitution for and in addition to her short-term credits, and on the same authority this is a need which cannot be met until a political *modus vivendi* is reached with her neighbours and the reparations debt is dealt with on rational lines.

Hungary is a predominantly agricultural country with an industrial superstructure which has survived from a former existence. Industries planned for the Austro-Hungarian Empire, with a home market of 46 million people, cannot prosper in a market reduced to 8½ millions and surrounded by hostile and protectionist neighbours. Only the richness of Hungarian soil and the character and energy of her agricultural population have brought Hungary through the perils of communism and currency depreciation and the economic follies of the Peace Treaty. But when Hungarian agriculture is undermined by the catastrophe of prices, there is nothing left. The figures are eloquent. Between 1927 and 1930 an unfavourable balance of £47½ million\* was covered entirely by foreign borrowing at long and short term. The total foreign debt is now £146 million and the annual service nearly £11 million. Most of this debt was incurred with wheat at 30 pengö : to-day's price is 9 pengö. The result, as in Germany, is an enforced moratorium on the short-term foreign debt, and a frantic endeavour,

\* Converted at 28 pengö to the £.

## Great Britain and the Financial Earthquake prompted in this case by Geneva, at all costs to increase exports and curtail imports.

Brazil has fallen on similar troubles by another road. The very extent of her territory and its heterogeneous population create administrative problems which in the most favourable circumstances must retard and impede the exploitation of her immense natural resources. Yet, in the past, development has proceeded, at its own gait—and with many set-backs—but still surely. Foreign borrowing is rightly the first condition of Brazilian progress, and Brazil has been on the whole a good debtor, in spite of a unique talent for the progressive devaluation of her own currency. In recent years the long-term foreign debt of the Federal Government, the States and other public bodies has grown rapidly, and by 1930 it amounted to £282 million.\* This movement synchronised with a rising price for coffee, which has always been the principal article of export. Trusting to her dominant position in the coffee trade, Brazil began in 1925 to "defend" coffee, that is, to maintain its price artificially. By the act of God, which brought two record crops in three years, and by the working of economic law, which ensured that rising prices should lead to over-production, the defence scheme broke down as soon as commodity prices in the United States began to fall. Brazil was left with large stocks of coffee which no one wanted, and after reaching an average price of £5 a bag in 1928, the price has fallen to £1 18s. (the average for the first 8 months of 1931). The effect on the Brazilian balance of payments was disastrous. In 1928 the value of coffee exports was nearly £70 million out of a total of £97½ million: in 1930 the figures fell to £41 million and £66 million.† As Brazil's requirements of foreign exchange to meet her debt service and private remittances abroad have remained constant in the neighbourhood of £40 million, and as further foreign borrowing

\* *Vide* Sir Otto Niemeyer's Report to Brazilian Government, July 1931.  
† See the official statistics of the Federal Government of Brazil.

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is out of the question, it is not difficult to understand that the recent partial default by Brazil on her foreign obligations was unavoidable. British investments in Brazil are estimated at about £300 million and the effects of this default on our own balance of payments are thus patent.

### IV. GREAT BRITAIN'S PROBLEMS

*“Mr. Jones, at the meeting of the Proprietors of the Bank of England, September 13, 1866, gave it as his opinion that ‘the main cause of the recent monetary crisis was that while we had bought £275 million of foreign produce in the year 1865, the value of our exports had only been £165 million, so that we had a balance against us to the amount of £110 million.’”—(Economist, September 22, 1866, quoted in Bagehot's *Lombard Street*.)*

IN the chaotic world which has been described, the situation of Great Britain can now be seen in its proper setting. The main facts are well known and those who wish to follow them in detail through a statistical demonstration will find them conveniently set out in a recent article\* by Mr. C. G. Clark. It is not difficult to imagine what would have been the observations of Bagehot's Mr. Jones to his fellow Proprietors after reading the figures of the last few years. In the first place, the value of exports has steadily fallen: these are the gold values in millions of pounds:—

				1931 (annual rate).		
1913	1926	1929	1930	1st quarter	2nd quarter	3rd quarter
525	653	729	571	413	383	373

Expressed as a percentage of the aggregate exports of all manufacturing countries, our exports have fallen from

\* Statistical Studies of the Present Economic Position of Great Britain. *The Economic Journal*, September 1931.

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almost 26 per cent. in 1925 to less than 20 per cent. by the beginning of 1931. Simultaneously manufactured imports have assumed a growing importance: the percentage relation between manufactured imports and our total home production of manufactured goods has risen from 11.9 per cent. in 1924 to 15 per cent. in 1930. The loss of export trade has been a main cause of unemployment. The number of insured workers in employment in, or in connection with, the export trades was 2,175,000 in 1924, 2,200,000 in 1929, and 1,400,000 in March last. It is significant by contrast that employment in the consumption industries has hardly decreased at all since 1929.

The two main causes of these changes are that our industries have not been competitive and that some of our best markets, such as India and Australasia, have felt the full force of the depression. We have ceased to be competitive because for many reasons our costs have proved inelastic. Our money costs have been too high in terms of gold relatively to costs in other countries. Real wages in England in 1930 were 21 per cent. higher than in 1914, and 10 per cent. higher than in 1924. Our basic industries have lost the power to make profits, with the result that capital expenditure, enterprise and development have tended to be restricted, while the demand for consumable goods has been maintained and imports encouraged by a high level of money incomes. In such conditions, adjustments must be made voluntarily and in time, or they will be imposed by an increasingly unfavourable balance of payments. Mr. Clark gives a table which would indicate that since 1924 this country has on one occasion only, *i.e.*, in 1929, shown an actual net credit on her balance of payments after including new overseas issues, and that there must have been an influx of new foreign money into the country during those years of nearly £300 million. In 1930 the balance available for new lending abroad was only £39 million, and with the rapid subsequent deterioration both in exports and in our income from investments and

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services it seems certain that the unfavourable balance for 1931 will be anything from £50 to £100 million. Although the collapse of the sterling exchange was in the end accelerated by the central European crisis and the general atmosphere of panic, all the indications are that it could not have been long deferred.

### V. THE CONDITIONS OF WORLD RECOVERY

FEW of us are interested in diagnosis without cure, and the question what the world can do to be saved awaits an answer. Our own belief is that the road to recovery bristles with difficulties and that there is no short cut to prosperity. It is only necessary to examine any aspect of the problem as we have attempted to unfold it for it to be apparent what a decisive part human folly and human weakness have played in the past and how improbable it is that humanity will in a night acquire wisdom and strength and tolerance.

Take the German situation. At the end of February the Standstill Agreement will expire and the bankers of the world will be free to call in short-term credits amounting to £400 million, or, if the latest figures are correct, to considerably more. In July Germany will, in default of an extension of the Hoover moratorium or some new arrangement, again become liable for the payment of about £81 million a year on reparations account. It is certain that Germany cannot pay off her short-term obligations at maturity and that the resumption of large-scale reparation payments would be followed by disastrous consequences both to Germany and to the rest of the world. What are the omens at the moment? The Hoover-Laval agreement throws the reparation problem back on Europe, and the only procedure contemplated appears to be that Germany should appeal under the Young Plan to a committee which is debarred by the terms of that Plan from

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considering at all the unconditional annuities of £31 million. French public opinion has urged that reparation payments should rank before bank credits, and as France is entitled to 51 per cent. of the full annual payments under the Young Plan and to 82 per cent. of the unconditional payments, whereas her claim as a short-term creditor of Germany is only a fraction of those of Great Britain and the United States,\* this attitude is intelligible. Yet there could be no more serious obstacle to world recovery than that the French view in this matter should prevail. It is easy at this date to criticise the bankers of England and America for granting facilities to Germany which are now seen to be excessive: it is easy, too, to forget that without those facilities neither reparation payments nor remittances directly or indirectly dependent on them in settlement of war debts could ever have been made. But the criticism is irrelevant. The debts exist and will not be renewed under any arrangement which leaves the fundamental causes of German embarrassment untouched. International banking is the life-blood of world trade, and if its resources are to be congealed and their free flow interrupted, not the bankers only, but the whole world will be crippled. By a pleasant irony the same stroke will end reparation payments for ever. Unless a settlement can be reached within the next few months which will make Germany again a fair credit risk, the outlook will be black indeed. If, on the other hand, it should prove possible by the abandonment of reparations and other non-commercial international debts to remove from world economy a burden which has been found intolerable, a major cause of world depression will have disappeared.

It has become abundantly clear, to take another point, that half the economic problems of the world are insoluble at the present level of prices. Debtors cannot hope to

\* Of the credits to German commercial banks, for which detailed figures are available, the United States on July 31 last held 37 per cent., Great Britain 24 per cent., Switzerland 13 per cent. and France under 7 per cent.

## The Conditions of World Recovery

meet their obligations by following what appears to be the prevailing fashion and practising, in a phrase used by the *Economist*, "the self-contradictory policy of exports without imports." They would be unwise, even if lenders appeared over the horizon, to attempt to meet their debts by further borrowing. A rise in prices may well seem the only alternative to *tabula rasa* and a fresh start. In present conditions the course of gold prices depends primarily on the monetary policy of France and the United States. If they wish, it is in their power, so long as they remain on the gold standard, to raise their domestic price levels by adding to the currency and credit available up to the limit permitted by their existing legislation and beyond that, if necessary, by reducing the legal minimum cover held in gold against their note circulation and their sight liabilities. If they hesitate to take that step, it is probably because they recognise that it is easier to set on foot an inflationary movement than to control it. But the choice is a choice of risks, and the consequences of a continuance of their present policy are hardly open to doubt. The sterilisation of gold on the scale on which it is now practised in France and America reacts in the end on the owner, and no country can in the long run maintain the position of a creditor nation enjoying a large export trade if it refuses either to buy or to lend abroad. Nor is it likely on such premises, and without a redistribution of gold stocks, that the gold standard itself can survive.

America and France are extreme but not isolated devotees of high tariffs. The same regime prevails in half Europe and in many of the new countries of the world. It has been reinforced by the organised "defence" of this or that commodity. It is idle to expect the reasoning which has created this regime or the interests which have grown up with its protection to crumble into ruin, like the walls of Jericho, at the blast of a trumpet. Even to-day, notwithstanding the pressure of harsh economic necessity,

## Great Britain and the Financial Earthquake

self-sufficiency is still the prevailing gospel, and it is to be feared that nothing but a long and painful process of education will expose its inadequacy.

To indicate, however summarily, some of the elementary conditions of recovery is sufficient to throw into relief the formidable difficulties which they present—difficulties of politics, of national psychology, of economic ignorance. Can such difficulties be quickly overcome? The Washington correspondent of *The Times*, at least, seems to have no illusions on that score. As these lines are being written, this\* is his verdict on the American prospect.

The present position of the United States is not in doubt. This country will take no further initiative in matters economic (Mr. Hoover's moratorium proposal will have no successor), and it will have no contribution, in the form of international responsibility openly undertaken, to make to the problem of the organisation of peace. If there is a way out of European troubles, it is clear that Europe must find it without direct American assistance. . . . There are signs, moreover, not only that the world's greatest creditor nation will leave its tariff policy untouched, but also that in the years immediately to come it may be an exporter of capital to a very insufficient degree.

### VI. GREAT BRITAIN'S TASK

WE may well ask what should be the objects of British policy in a world so distraught. The nation is still immersed in the novelty, the uncertainties, the exciting possibilities of an emancipated currency. It has observed the first faint dawning of a trade revival. It understands vaguely that there is now a premium on exports, a penalty on imports. Immense stocks held in the country have combined with the unbridled competition of our foreign purveyors to postpone any appreciable rise in prices. For the moment we have most of the advantages of currency devaluation with few of its countervailing drawbacks. Our objective must be to retain that happy position for as

\* *The Times*, November 7, 1931.

## Great Britain's Task

long as we can and to employ the respite in correcting our essential weaknesses.

The first of these is our adverse balance of payments, and the shortage of liquid foreign assets held by our Central Bank. If trading conditions throughout the world were normal, it is probable that the advantage for our export trade of a pound at \$3.80 would suffice, at least temporarily, to redress the balance. But trading conditions are not normal, and in many markets even cheapness cannot stimulate buying. It may be necessary to add some form of statutory discouragement of imports, but there should be no illusions as to the dangers of such a weapon since we went off gold. When once a currency has dragged its anchor, it is exposed to all the force of wind and waves, and this is true to an exceptional degree of a country so dependent as ours on its imports for the necessities of its existence. If for any reason, whether currency depreciation or customs duties, or the refusal of any class to make reasonable sacrifices, a rise in our level of money wages is forced on us, we shall find our budget equilibrium endangered, our balance of trade still further deteriorating, and the pound launched on the slope to Avernus. The test of success in our monetary policy in the near future must be our power to attain relative stability of the pound.

At what level should we seek stability? Only time can show. It is folly to expect either too much or to aim at too little. There are some, no doubt an insignificant minority, who would like to see the pound back at the old exchange level. That yearning is unlikely to be gratified, except by the depreciation of other currencies and not by the appreciation of ours, and if it were we should groan under the burden for a generation. Others are ready to assume that by the devaluation of the pound we can halve the National Debt. Even that is possible, but at the risk of finding it not halved, but eliminated, and with it the accumulated savings of the nation. The true object of policy must be the *de facto* stabilisation of the pound at a level which

## Great Britain and the Financial Earthquake

does not require an increase in present wage rates. That level can only be found by trial and error, by a deliberate effort to keep fluctuations in sterling within ever narrowing limits. If we can hit the mark, the ultimate revival of trade and industry will lighten the burden of all budget charges, and though the ratio between the service of the National Debt and the total of the budget may not be materially altered, the buoyancy of the revenue and the creation of conditions favourable to conversion schemes will make the debt service less intolerable.

By *de facto* stabilisation we mean stabilisation without the anchorage to gold. If comparative stability can be combined with a free market in forward exchange, most of the practical objections to a currency divorced temporarily from gold lose their force. Even the sterling bill, backed by the unrivalled facilities of the London market, need not despair. In the view of *THE ROUND TABLE*, it would be little short of madness for us to link the pound again to gold until it is clear that international conditions will permit of a more normal working of the gold standard than we have seen since the war. At the moment the gold standard has little reality outside France and the United States. If Germany and Hungary and Poland and South Africa\* still profess adherence to it, that adherence is maintained only by a formal or informal restriction on the transfer of funds. The individual who finds that, because South African exporters refuse to pay the premium necessary to repatriate their export balances, he himself must resort to the subterfuges of the underworld in order to withdraw £1,000 from his bank in Cape Town and remit it to London, may well regard the latest practice of the gold standard with a certain cynicism. The wise course is to face the fact that the international regulation of the exchanges through the medium of gold has broken down, and to wait on events.

For these tasks which confront us this country is not with-

\* For an account of the reasons why South Africa is endeavouring to keep to the gold standard, see p. 188.

## Great Britain's Task

out resources, moral and material. The Government can rely on the declared determination of the nation to see the thing through. It need have no anxiety as to the fundamental soundness of our banking system or the resilience of the most highly organised money market in the world. We are still the greatest creditor nation, with immense assets abroad, even though they are not in present conditions readily realisable. Even internationally, as an offset to our relative temporary financial weakness and our diminished financial prestige, we have the knowledge that the world wants us back on gold as soon as possible and that it lies with us to say when we shall go back. These are days not for optimism nor yet for despair; and if the march of events should allow Mr. Ramsay MacDonald to relax into a mood of relative cheerfulness, he may well call to mind the words which Abraham Lincoln, in a crisis of the Civil War, addressed to his Cabinet: "*Now, gentlemen, we have got our harpoon into the monster, but we must still take uncommon care or else by a single flop of his tail he will send us into all eternity.*"

# Great Britain and the Financial Earthquake

## APPENDIX I. BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED KINGDOM.\*

	(In millions of £.)				1913	1924	1925	1926	1927	1928	1929	1930
Commodity imports (retained)	..	659	1,137	1,167	1,116	1,116	1,095	1,095	1,076	1,076	1,111	958
Commodity exports ..	..	525	801	773	773	773	653	709	724	724	729	571
Visible unfavourable trade balance..												
Net movement of gold ..	..											
Excess of imports of commodities and gold ..	..	134	336	394	463	463	386	386	352	352	382	387
Excess of Government expenditure overseas ..	..	- 24	+ 12	+ 12	- 12	- 12	- 4	- 4	- 7	- 7	+ 16	- 5
Total of debit items ..	..	158	324	382	475	475	390	390	359	359	366	392
Excess of Government receipts from overseas ..	..											
Net national shipping income ..	..	95	140	125	4	4	1	1	15	15	24	21
Net income from foreign investments	..	210	220	250	270	270	270	270	130	130	105	105
Net receipts from Financial and other services ..	..											
Estimated total net credit balance ..	..	182	86	57	6	6	96	96	136	136	138	39
Estimated total net debit balance ..	..	198	135	88	122	122	139	139	144	144	95	109
New issues for overseas ..	..											

\* Compiled from the estimates of the Board of Trade and the Midland Bank Ltd.

## Great Britain and the Financial Earthquake

## APPENDIX II.

**BALANCES OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, CALENDAR  
YEARS 1922-1930.\* (In millions of dollars)**

Class of transactions (gross or net)	1922	1923	1924	1925	1926	1927	1928	1929	1930 (unrevised)
<b>COMMODITIES (ADJUSTED)</b>									
Exports	4,121	4,368	4,834	5,177	5,044	5,091	5,333	5,447	4,097
Imports	3,419	4,162	3,952	4,544	4,766	4,508	4,468	4,799	3,339
Balance of trade (adjusted)	+702	+206	+882	+633	+278	+583	+865	+648	+758
<b>MISCELLANEOUS INVISIBLE ITEMS.</b>									
Freight : Ocean, Great Lakes and railway (net)	79	83	64	84	95	66	32	66	96
Expenditures by American tourists:									
Canada and Mexican frontier	-100	-131	-159	-185	-201	-231	-293	-334	-322
Overseas, including West Indies	-345	-313	-374	-400	-422	-465	-531	-534	-489
Expenditures by foreign tourists in United States	+87	+104	+107	+112	+148	+163	+163	+183	+171
Ocean-borne passenger traffic	+53	+60	+53	+63	+69	+89	+44	+47	+49
Interest on American private funds abroad (long and short term)	+555	+594	+635	+689	+740	+800	+896	+979	+904
Interest on foreign funds in United States (long and short term)	-144	-180	-192	-229	-268	-281	-359	-414	-310
War-debt receipts (principal)	+32	+92	+23	+26	+35	+46	+50	+62	+77
War-debt receipts (interest)	+126	+167	+16	+160	+160	+160	+157	+145	+164
Other governmental transactions (net)	-46	-66	-53	-61	-49	-29	-57	-92	-81
Immigrant remittances (net)	-255	-229	-229	-235	-218	-206	-218	-223	-166
Charitable and missionary contributions	-75	-70	-55	-50	-46	-49	-51	-49	-49
Other items (net)†	+46	+57	+68	+74	+74	+74	+24	+25	+7
Total, commodity and miscellaneous (net)	+557	+208	+802	+513	+205	+588	+658	+377	+617
<b>NEW PRIVATE LOANS, INVESTMENTS AND DEPOSITS</b>									
Net increase in American long-term investments abroad (par value)	-857	-258	-869	-872	-808	-972	-1,317	-791	-406
Deduct bond discounts and underwriters' commissions on above	+101	+48	+125	+119	+121	+119	+122	+26	+66
Net cash payments for above	-756	-210	-744	-753	-687	-853	-1,195	-765	-340
Net increase in long-term investments in United States by foreigners	+3	+240	+11	+193	+147	+158	+477	+446	+50
Change in net debt of American banks to foreigners	+375	+3	+216	-61	+359	-	-226	+13	-443
Net private capital movement (long and short term)	-378	+33	-517	-621	-181	-695	-944	-306	-733
<b>OTHER BALANCING ITEMS.</b>									
Gold shipped or earmarked (net)	-234	-295	-216	+102	-72	+154	+272	-120	-278
Shipments of American paper money (net)	+40	+50	-20	-30	-	-	-	+20	
Add for net discrepancy due to inaccurate figures, omissions, etc.	+15	+4	-40	+36	+48	-47	+14	+49	+374

\* From Trade Information Bulletin No. 761 of the U.S. Department of Commerce.

† Largely a deduction from American tourist expenditures overseas.

Includes insurance, motion-picture royalties, cable charges, Canadian electric power, press subscriptions, patents and copyrights, and advertising.

## THE EUROPEAN PROBLEMS OF THE UNITED STATES

### I.

**N**O doubt you will recall the trouble Alice had with her flamingo ; "generally, just as she had got its neck nicely straightened out, and was going to give the hedgehog a blow with its head, it *would* twist itself round and look up in her face." But perhaps that's the way of the flamingo, as it most certainly is the way of the Post-War Problem.

Take, for example, the matter of making Germany pay for the war. At the outset, in 1919, the principles were clear ; Germany had been guilty of causing it, now she must pay for it. These two indisputables were written into a treaty, and thereby became what might be called the Paris idea. But the German people at once repudiated the admission of guilt which their representatives had signed ; and, I dare say, began to consider how they might also avoid the financial obligations which these same representatives had undertaken. At all events, the German mark became worth next to nothing three years later ; so her creditors, fearing communism in the Reich, concluded that it would be a good thing, a "stabilizer," if the annual payments to be made on reparations account were fixed in figures, once and for all. Perhaps that might be called the Dawes idea.

The schedules were so fixed, and became effective on September 1, 1924. Mr. Parker Gilbert was appointed Agent-General for Reparations, the mark was restored to a

## The European Problems of the United States

gold basis, and the United States began to make loans to Germany. Indeed, in less than five years, from September 1924 to the spring of 1929, American investors managed to advance the sum of \$1,185,000,000 on a long term basis to the German Government, its States, municipalities and industries. Then suddenly, and chiefly because of the greater speculative attractions of New York Stock Exchange, the eastward flow of loans dried up. Germany's financial condition, we heard, was again critical; and we were told that this situation arose from the fact that though her annual payments had been determined, the total figure had not been fixed, nor the period of years over which the payments were to run. Out of a third international conference emerged the Young idea—that the total figure should be \$27,641,942,800 and that reparations annuities should be spread out over three generations.

So in September 1929, with the flamingo's neck all straightened out, the game began again. Two hundred and fifty million dollars more went out of American savings into German bonds, and American bankers continued to extend three and six months' accommodation to German borrowers, running to perhaps seven hundred million dollars more on the average. Thus between the end of 1924 and July 1, 1931, we had made fresh loans to Germany amounting to about \$2,100,000,000; out of which, or as a result of which, Germany managed to pay to her creditors on reparations account the sum of \$2,600,000,000. These creditors in turn, being indebted to the United States, paid somewhat less than two billions of it back.

In June of this year, following the collapse of the Credit Anstalt in Vienna and its rocking repercussions on German private finance, Germany walked on the edge of ruin for the third time since the war. The official manifesto published in Berlin on June 6 stated that the Government had now imposed upon its citizens all the privations which they could possibly endure: that the financial situation of the Reich, seriously menaced, required that Germany be

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relieved of reparations ; and that the economic fabric of the world was in danger of being rent to pieces. This declaration, in terms of international finance, meant at least these things : that Germany believed she could not (and even if she could, perhaps would not) make any further payments on reparations account ; that, unless help were immediately forthcoming, the principal of her external private loans might be lost to the foreign investor, and the short-term banking advances still lying in Germany might never be returned to England, the United States and France.

The financial crisis revealed by Brüning's manifesto of June 6 was in part caused, and in part further aggravated, by the withdrawal of foreign balances from Germany. It is said that total withdrawals for the first two weeks of the month reached a sum equal to £40,000,000. For this exhibition of panic psychology, the London fraternity was quick to blame "the inexperience of American bankers," but Wall Street, in turn, has more than a suspicion that English banks, nearer to the situation, had silently begun to drain off their own German credits some weeks before New York took fright. In fact, the problem of fixing the blame becomes more complicated as time goes on. Staid old Alexander Dana Noyes of the *New York Times* financial page speaks on October 30 of "the part that the Paris banks played in the panicky snatching, directly or indirectly, at their German credits." What, France too ? Better to let the quarrel pass ; for as in the mooted question of who started the war, and the footling question of who won it, the "effective cause" will probably never be determined.

It is enough to remember that there was (and on November third there still is) in Brüning's broadside something more than a warning, something more than a cry for help. There was and there is the cream of a tragic jest. For if a general default of German privately held external debts were to take place, and if the books of reparations and war

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debts were to be closed, an accounting would show the American people to be \$2,000,000,000 better off in the Treasury of the United States, and \$2,000,000,000 worse off in the value of their private investments. It would show the German Treasury some \$2,600,000,000 out, and (including private loans from citizens of the Allied countries) a far greater amount in. Or nothing in for the United States and nothing out for Germany, and a fine deficit on balance for England. For France, about as much as she suffered from the physical havoc of the war. All that we would then need to put us back to 1914 would be a revision of the territorial clauses of the Versailles Treaty (which is under discussion) and the return of Germany's colonies to her rule (which may yet be the price demanded by a Hitlerite Germany for her co-operation in international recovery). Back, in broad outline, to 1914, with 8,750,000 dead, more than 21,000,000 wounded, seventeen years of bitterness, high nationalism and suspicion—stupendous internal debts in the English-speaking countries, their partial repudiation in Germany and France—and for the millions of dead and the billions of waste—not even on the basest reckoning one compensating penny anywhere to show for it. God help us !

And yet might we not have another war—just a little one ? It wouldn't cost much more money or many more men. Just a limited affair which would expedite this matter of returning Germany's colonies to her and of revamping some of those mistakes in territorial arrangements which crept into the Treaty of Versailles. It would only cost a couple of millions and billions respectively, and at its end we could let the devils of hell off the leash and invite them all to dance and sing to their hearts' content over the litter we have made of our lives.

## The European Problems of the United States

### II.

ON June 20 last, President Hoover made a memorable offer, "The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations and relief debts, both principal and interest, of course not including the obligations of governments held by private parties . . . to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences abroad." This was the Hoover idea.

It did seem to us across the Atlantic that the Germans were unusually stupid in pressing the *Anschluss* with Austria, parading the *Stahlhelm*, and announcing a second "pocket battleship" in a period of such crisis. It did seem that the French were incredibly small in withholding their support of the plan through sixteen anxious days, while the economic structure of the so-called civilized world and the political structure of Continental Europe swayed back and forth toward the angle of break. These things probably have lost their importance, if they haven't, the historian will take care of them. He will also leave a record of the fantastic fortnight that followed France's deferred assent—statesmen and bankers came and went, here, there, and everywhere.

And thick and fast they came at last,  
And more, and more, and more.

Luther on the wing, to London, Basle, Berlin and Basle ; Montagu Norman on his heels ; Henderson in Paris, Stimson in Rome, with Mellon joining him in Paris from the Riviera ; Brüning to Rome and to Paris—and finally their trek to London on July 20 to attend a conference at the invitation of the British Government, exactly one month

## The European Problems of the United States after the President of the United States had made his offer.

The Conference met, discussed matters for three days, and rose—without breaking up. This alone was an achievement, for its powers were uncertain, its terms of reference were vague, and the atmosphere was charged with bitterness and recrimination. But what is more, the Conference made certain definite proposals: one led to a six months' moratorium on German short-term private debts arranged by a committee from private financial institutions of the creditor countries; the other resulted in a summary study of Germany's financial situation, with particular reference to the conditions under which long-term lending might be resumed. The report deplored the lack of confidence among nations, suggesting an economic rapprochement between Germany and France; it called attention to the growth of tariff barriers as an impediment to international trade, and urged a reconsideration of the problem of inter-governmental debts. Thus the committee of bankers gave back to the statesmen the task which the statesmen at London had put upon them. A month had been lost, but by this procedure much more was gained; and what first looked like an evasion of responsibility on the part of the Conference turned out, in the end, to be a stroke of genius.

Mr. Hoover's offer had been well received both in this country and abroad. Even the French authorities, while resenting the way the plan was pushed at them, did not look with disfavour upon the proposal itself. It provided relief at a tense moment in the affairs of international finance, and it encouraged a hope abroad that the United States might go still further toward cancellation of debts and membership in the League of Nations. This expectation was increased when Messrs. Stimson and Mellon attended the London Conference, not as "unofficial observers" nor in any other such ambiguous capacity, but as accredited representatives of the American Government; and it swelled perceptibly, during the Manchurian crisis

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of October, when Mr. Prentiss Gilbert was instructed by Washington to sit with the Council of the League. These incidents seemed to mark a change in the spirit and technique of American foreign policy. Hoover, long reined in, had taken the bit in his teeth and had started down the road. So it may have appeared; but the inference is hardly justifiable. For Woodrow Wilson started down the road alone twelve years ago, with disastrous results, and it is doubtful whether any other Chief Executive of our generation, in his senses, would be willing to try the same course again. Indeed, when Congress meets in December and the President is called to account (as he undoubtedly will be), many of Hoover's best friends want him to make it clear that the London appointments and the instructions to Gilbert were employed as the only means to meet the worst crisis in the great depression, and that there is no thought of following their implications any further. That ought to be a satisfactory explanation of the status given to Mr. Stimson and Mr. Mellon; but it will not be so easy to justify Mr. Gilbert's rôle at Geneva. For his appointment was not a thing by itself: it followed assurances by the Secretary of State that the United States stood ready to "reinforce" the League in the Manchurian matter. In 1919, when the Covenant of the League was being drafted in Paris, a certain distinguished statesman observed that, in his opinion, Article 10 was dangerous. "Either it means something revolutionary in international affairs, or else it means nothing. In either case it should be left out." The use of the word "reinforce" is subject to the same objection. Just how, if you were a drafting clerk in the Secretariat at Geneva, would you translate that word into French? And would you be sure that the French verb you chose correctly carried the same admixture of military, economic and moral horsepower that Mr. Stimson had in mind when he used it? More will be heard of this Geneva incident before Congress adjourns next spring.

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In the *New York Tribune* of October 13 Walter Lippmann shrewdly suggested the possibility of projecting this "action" on to another plane:

The precedent thus established (he wrote) is more than ample for reaching an excellent understanding with M. Laval when he arrives. M. Laval will not expect us to ratify the Covenant, and no informed Frenchman is asking the United States to sign a diplomatic blank check. But if the Administration is able to point to the Manchurian action as a precedent, and to say to France in terms which satisfy the French instinct for lucidity that the precedent can be relied upon in the future, it should be possible to make immense progress in the reduction of armaments and the stabilization of Europe.

If this intimation was given to M. Laval by Mr. Hoover, it evidently did not work as a substitute for a security pact. Being unwilling to accept the one, and being unable to get the other, M. Laval seems to have decided to let well enough alone. Indeed, his position is even happier than that, for first among the souvenirs of his flying trip to the United States he cherishes Senator Borah's incredible and lovely gift—the Senator's admission that French armaments and French security are matters to be gauged by the judgment of France alone.

### III.

"THE question is," said Humpty Dumpty, "which is to be master—that's all?" The answer is—France.

On October 25 President Hoover and M. Laval issued a *communiqué*, stating that they had "canvassed the economic situation in the world, and the trends in international relations bearing upon it; the problems of the forthcoming conference for the limitation and reduction of armaments; the effect of the depression on payments under inter-governmental debts; the stabilization of the international exchanges and other financial and economic subjects." They laid stress upon "the importance of monetary stability as an essential factor in the restoration of the normal economic life

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in the world, in which the maintenance of the gold standard in France and the United States will serve as a major influence." They felt that before next June some agreement regarding inter-governmental payments "may be necessary covering the period of business depression," and they thought that the initiative in this matter "should be taken at an early date by the European Powers principally concerned within the framework of agreements existing prior to July 1, 1931." The United States thus turns over to France the initiative with regard to inter-governmental obligations, holds out the possibility that Allied debts due to the United States will be reduced once reparations have been scaled down, and abandons the idea of making progress in the near future in the matter of disarmament. In return France appears to agree to stop drawing gold out of New York except in orderly fashion and for substantial reasons. These conclusions are open to no other interpretation than that the United States abdicates, in favor of France, the position of leadership which she assumed on June 20 through Hoover's proposal for a moratorium. France evidently wants the power which such a position brings: so in that respect M. Laval won a striking victory. It must be set down as a rather empty triumph, however, for, if one thing is clear, it is that the United States is quite prepared to surrender leadership to France or to any other appropriate and responsible government.

¶ For the past ten years, or to be more exact, ever since the funding of the British debt to the United States, the policy of Washington has, in the main, moved along parallel lines with that of London. If Germany and France were at variance with each other over the Ruhr, reparations, or the German-Austrian customs union, the two Anglo-Saxon countries were inclined to support the German point of view. So far as the United States was concerned, this policy was expressed in public opinion rather than in governmental action; but whenever private

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American citizens served on European committees formed to deal with European problems, they tended to listen sympathetically to Germany's complaints, and to act as a restraining influence upon French demands. England and the United States, officially and unofficially, pursued their separate courses of action under a set of common principles.

The extreme case, of course, occurred in June, when the plan for a one-year moratorium was devised and announced pursuant to an agreement between American and British authorities, without consulting Paris. At that signal France displayed an unexpected independence. Her financial position had become strong, her industrial position was not weak, her diplomatic position on the Continent was solid. For more than a fortnight she held the rest of the world in suspense while she exacted certain modifications in the Hoover plan to meet her views. The decision of the World Court against the German-Austrian customs union gave her encouragement: the visit of Brüning to Paris strengthened her sense of power. Then London began to feel the effects of a run on her gold and, in the end, had to suspend the gold standard. The American people received this announcement "more in sorrow than in anger." Banks with London credit balances took their losses in good spirit. It seemed to be the general feeling that England had once restored the pound to par by sheer force of will; but that the burden of keeping it there had become too heavy for her to sustain. Such was the friendly personal view. But common sense suggested that the financial objectives of the United States and England might no longer be the same: and that it would be illogical to continue a now uncertain partnership to the further alienation of French goodwill. It is doubtful whether Hoover and Laval did reach, or ever could reach, a partnership in the Anglo-Saxon sense of the term; but it is certain that they arrived at a *modus vivendi* under which the next chapter of reparations and war debts will be written.

The better informed opinion in the United States has

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found an excellent spokesman in Mr. Thomas W. Lamont, of J. P. Morgan and Co. In the *Saturday Review of Literature* of October 31, 1931, in the course of a criticism of Dr. Schacht's new book, he summarizes the situation as it stands to-day :

There must be some common ground of agreement that the German and the French people can and eventually should reach . . . There must be some figure of reparation payments that the Germans themselves should be moved to propose ; a figure not so unreasonably small as to deserve the contempt of the creditor Powers, not so large as to be beyond the assured capacity of the German people to pay . . . It now becomes the prime business of the European governments to undertake to settle the question of reparations, and that without American initiative . . . Certainly, after the sensational events of the last few weeks, especially Great Britain's suspension of the gold standard, no sensible American can have serious question that the Administration at Washington will be prepared to receive with an open mind any fresh proposals of a constructive nature that emanate from the governments of Europe.

Mr. Lamont certainly voices our better opinion and he probably forecasts correctly what Congress in the end will do. But Mr. Hoover will have no easy time of it when Congress reconvenes in December. First of all, the House of Representatives is likely to be Democratic. As the result of five bye-elections held on November 3, the Opposition party can now claim 217 members, the Republicans 216, and the Farmer-Labor party 1. A seat in the fifth New Jersey District is to be filled on December 1 and the one remaining vacancy, a New Hampshire seat, will be decided on January 5. The probabilities are that the Democrats, having a nominal majority, will be asked to organise the House : and that the balance of power will lie with the one representative of the Farmer-Labor party.

Moreover, when M. Laval finally approaches the American Government with a new plan involving the payment of German reparations (or their non-payment !) he will find

## The European Problems of the United States

more hostility to his suggestion of a corresponding reduction of Allied debts to the United States than he has been led to expect. The joint *communiqué* which he and Mr. Hoover put out at the conclusion of their conversations, suggested that Washington would entertain the idea of *some* reduction. Perhaps further details were privately and tentatively agreed upon. But at the same time one cannot help deplored the appearance in *L'Information* of an article by Count Fernand de Brinon, who accompanied M. Laval on his Washington visit :

It can be affirmed, in effect (he writes), that Mr. Hoover has agreed to confide to France the task of discovering in the general interest, a new settlement of reparations ; and that in exchange for this settlement he has engaged himself to support before Congress an equivalent reduction in debts owed America.

The Treasury of the United States is confronted with the staggering problem of meeting a deficit of over \$2,000,000,000 for the current fiscal year. Congress will be badgered with demands for relief on an unprecedented scale. Whatever may eventually be decided in Washington with regard to war debts owed to this country, Congress will not cheerfully accede to the necessity of revising or cancelling these obligations, and will doubtless show their resentment at the fact that Mr. Hoover gave to M. Laval the concrete assurance that he is alleged to have given.

So . . . under the new dispensation, France and the United States will co-operate to maintain the gold standard, and France will take the lead among European nations in arranging what is hoped to be a permanent settlement of the problem of reparations. The United States will give friendly consideration to corresponding suggestions concerning war debts.

## The European Problems of the United States

### IV.

**A**S for the question of disarmament, it seems that Mr. Hoover and M. Laval have laid it on the table to await a more propitious season. Their *communiqué* stated that the task of the Disarmament Conference in 1932 would be "the organisation on a firm foundation of permanent peace."

We have been slow to realise that nothing can compel Germany to pay reparations against her will; even more slowly have we learned that nothing, in the last analysis, except their free consent, can compel debtor governments to pay their obligations to the United States. But, if it is now too late to trade these debts against disarmament, it is not too late nor too much to look for a voluntary proposal in this respect from France.

But even without this, permanent peace can be considerably advanced at the Conference in 1932, or before it, or at any time that statesmen really care to advance it. No admirals are needed, and no statistics: but a brief agreement among the principal nations that from now on they will collect their taxes in two assessments. The first would require the tax-payer to make his annual contribution to the expense of past, present and future wars; the second would fix his payment for the constructive activities of his government. No statesman who professes to prefer a regime of peace to one of war could honorably refuse to enter such an agreement. And the fellow who pays for it all, learning for the first time that sixty-five per cent. of his tax was to be paid under the first assessment, and only thirty-five per cent. under the second, would shortly, at the polls, have something of moment to say to his governors on the subject of disarmament. In all conscience he is entitled to know the facts and to speak his mind.

The United States of America,

November 6, 1931.

# THE WORLD AND THE CRISIS

## I. THE FALL OF THE POUND

WE have passed through another three months of the world-crisis and, like the Abbé Sieyès, some of us may say *nous avons vécu* with a certain air of thankfulness. At least the predictions of the darkest prophets who foresaw the imminent collapse of Western civilisation have not yet been realised. The evil of the day has indeed been more than sufficient, but there may perhaps be ground for hoping that the climax of the economic tempest has been reached, if not passed. In any case, it can do no harm to strain the eyes in the blackest hour to discover whether some faint ray of dawn may not be discernible.

When the last number of this review went to press, the inexorable advance of the depression had pushed Germany and central Europe to the edge of the abyss. The London Conference, hastily convened to meet the crisis, had failed to find any radical remedies. Though it took measures for propping German credit by extending the loans which could not be repaid, it did nothing to remove the causes which had brought about the breakdown of international credit and had destroyed the foundations of confidence. As these causes still persisted, their paralysing effects steadily spread through the arteries of the world's financial system, until finally they reached its heart, the City of London. For the first time in modern history it was unable to meet its obligations. Just as banks all over the world could not

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realise their assets in order to meet the panicky withdrawals of their clients, so finally the hub of the banking universe failed to stand the unprecedented strain to which it was subjected. The whole of Europe was shaken by the threatened failure of Germany, Austria and Hungary. Heavy calls were made on London by depositors who wished to reinforce their liquid assets to meet sudden liabilities. The run stimulated the fears of many abroad who had seen England's economic situation painted in funereal colours by certain French observers widely regarded on the Continent. These fears found confirmation in an increasingly unfavourable trade balance, and seemed to be finally clinched by the alarmist findings of the May Report, which was recklessly published at the psychological moment, when London was called upon to meet the full blast of the July crisis. No doubt this astonishing step was taken with the laudable intention of arousing the British public to the dangers of its internal situation ; but unhappily the contents of the Report, and still more the lurid commentaries of the London press, were blazoned over the five continents at the very moment when foreigners were looking to their British holdings with growing anxiety. Thus the run became a rush. Gold began to drain away from the Bank of England in August as it had drained away from the Reichsbank in July, in spite of the seemingly incredible fact that Great Britain, so far from being impoverished like Germany, remained by far the greatest creditor country of the world. Her investments abroad bore a nominal value of £4,000 millions, and were calculated by the *Economist* as being actually worth £3,140 millions at the end of July. But all these immense resources could not be mobilised to stem the outflow of gold. The short-term loans frozen in central Europe were equally beyond recall. A political crisis supervened, and a National Government was proclaimed. Loans to the extent of £130,000,000 were obtained from France and the United States at high rates of interest. The budget was drastically

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balanced. The firmest intentions of maintaining the gold standard were announced and the perils of its abandonment startlingly depicted. But none of these things stopped the rot. The flight from the pound, perhaps artificially assisted by deliberate efforts abroad to weaken it for speculative or political purposes, could not be arrested. On September 21 the Bank of England was authorised by Act of Parliament to suspend gold payments. England had left the gold standard, of which she had always been the principal advocate and support.

The repercussions of this tremendous event throughout the world cannot yet be assessed. It may at once be noted, however, that they have not produced the anticipated cataclysm. Thanks to the innate good sense of the English people, fortified by a seasoned distrust of the prophecies of their politicians and their newspapers, there was no trace of panic. Business continued as usual. There was no scramble to withdraw money from the banks or to hoard bank notes in stockings. The pound bumped sedately down to 16s., and rested there placidly in spite of the alarms and excursions of a singularly unedifying election. By degrees the catastrophe which had been the subject of so much dark foreboding was seen to foreshadow substantial reliefs. It might provide the lever for lifting a burden of debt which had become intolerable to the taxpayer and a burden of costs which had long been weighing heavily on industry and agriculture. Though some prices would necessarily move upwards, it became quickly apparent that the devaluation of the Irish, Australian, Canadian, Indian and Scandinavian currencies would largely guarantee the urban population against any meteoric rise in the cost of living. The fall of the pound offered a better chance for the manufacturer and the farmer, a prospect of reducing unemployment and an automatic method of redressing the trade-balance. In a hopeful but determined spirit England soon began to adapt herself to the new economic order with a cheerful philosophy peculiarly her own.

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When the election gave it an opportunity of expressing its mind, the country did so in an altogether unmistakable manner. It was resolutely decided to play for safety until all danger was over, by entrusting government not to one party, but to the strongest combination that could be found, and by thus giving irrefutable evidence of solidarity to the world. The Government was given a mandate by the largest majority in English history to frame and carry out a national policy of reconstruction irrespective of all party creeds and shibboleths. The new Administration was charged to do the work, which the Coalition Government was empowered, but mostly failed to do, in the years following the war. It may be hoped that it will prove worthy of the nation's expectations, but in any case the imposing spectacle of such a large measure of national unity produced an immediate effect on the whole situation. Confidence in the future of Great Britain, which had been badly shaken in August, and profoundly disturbed in September after the naval strike, was restored at a blow on October 27. The fear that Bolshevism was about to triumph, which was widely and sincerely entertained in foreign circles, evaporated over-night. Not only was England's belief in herself renewed, but she once more became an element of stability in the general crisis instead of an element of doubt and uncertainty.

The climax having been produced by Great Britain's departure from the gold standard, a first and important step towards restoring the world's equilibrium was thus taken by Great Britain's energetic effort to put her own house in order. Its moral effects at home and abroad may do much to counteract the psychological influences making for panic and pessimism, which are perhaps the most ominous and intractable factor tending to aggravate the crisis everywhere. But, though this is an invaluable beginning, the actual financial and economic problems still remain to be solved. The external effects of England's departure from gold cannot yet be gauged with any

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certainty. The devaluation of foreign holdings in sterling will injure a large number of foreign individuals and some foreign governments. On the other hand, a larger number of individuals and of governments, whose bonds are in sterling, will be relieved of their burden to the extent of perhaps 20 per cent. Countries dependent to any considerable extent on exports to England, or on British tourists, will suffer considerably, unless they conform to the new pound, as some have already done, and others may be forced to do in the near future. All these consequences are obvious enough, but the commercial effects are much more difficult to appreciate. As long as wages do not rise, the British manufacturer will probably be able to sell his product abroad at a considerably lower figure, in spite of the added cost of most raw materials. British coal, textiles, steel and machinery will have an opportunity of recovering much of their lost ground in foreign markets. Conversely, the enhanced value of all imported articles will enable British goods to oust foreign produce in many branches of the home market. But exactly how far can this double process go ? If it had been initiated in normal times, it may well be supposed that British trade would have recovered something like its natural expansion, and at the same time its natural equilibrium, without great difficulty ; but can that be expected to happen in the depths of a particularly deep depression ? Will not our foreign customers try to keep as many of their own people employed as possible by excluding British goods by higher tariffs, especially those who can no longer sell their own goods in the British market ? In other words, will not they adopt the reasoning upon which the case for tariffs is based by its advocates in this country ? Canada has already set an example by levying duty on British goods at the old parity value of sterling. Protective measures are being discussed in Holland and Norway to meet the new British competition. Germany has in any case been compelled by her financial troubles to reduce all imports to the

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minimum. Other countries may follow suit. If trade had been plentiful, such defensive measures would have been much less likely; but the smaller its volume, the more strenuous will be the efforts of every country to retain as large a proportion as possible for its flagging industries. One of the most marked features of the crisis is the dwindling of international trade as a whole.

We are therefore brought back inevitably to the conclusion that nothing but a general recovery will restore British commerce to a satisfactory level of activity. Though its situation will in all probability be substantially improved by the devaluation of the pound, its full benefits cannot be reaped as long as the slump continues. A general tariff might stimulate for a time the production of certain goods for the home-market, but would undoubtedly provoke retaliation which would severely injure our export trades. However illogical the threats of the French Minister of Commerce may appear at a time when France is restricting imports by high duties and contracting quotas, there is little doubt that a British tariff would be met by French reprisals, and France would not be the only country to adopt such measures. Solid prosperity cannot be conjured back to British industry by any purely British action. Neither devaluation nor protection can weave the spell separately, still less in combination. Great Britain can only prosper as a great centre of international commerce and finance. Until, therefore, there is a world-wide recovery, amelioration of Great Britain's position can only be partial and inadequate. We must, therefore, turn our view outwards to estimate how far the prospects have altered for better or for worse during these three months, while London has been in the eye of the storm.

## The International Outlook

### II. THE INTERNATIONAL OUTLOOK

IN the last number of this review\* it was pointed out that the basic causes of the depression were to be found in the series of maladjustments, economic, commercial, financial and political, under which the post-war world had laboured. The uneconomic manifestations of "economic nationalism," working through tariffs, subsidies and other protective measures, had choked the flow of international trade at a time when enormously increased productive capacity, both in industry and agriculture, made the free interchange of commodities between nations more than ever essential, if consumption was to keep pace with production. These evils tended to create a maldistribution of capital, which was greatly aggravated by the burden of war debts and reparations on the one hand, and by the failure of France and the United States, since 1929, to use their credit balances for maintaining and developing the economic activity of the countries most in need of money. As a result, political disturbances, largely due to impoverishment and unemployment, broke out in many of these countries, particularly in Germany, South America and India. These revolutionary movements still further reduced confidence and caused the purse strings of possible lenders to be drawn tighter than ever. Thus, by the time the German crisis occurred in July, the vicious circle was complete. The bankers blamed the governments and the governments blamed the bankers; but it was clear that the last word must rest with the statesmen. No financial action could any longer avail to restore the movement of money, raise commodity prices and start the upward trend towards recovery. None of these things was possible until the fears of internal and

\* See *THE ROUND TABLE*, No. 84, September 1931, p. 769.

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international upheavals could be allayed, and that meant little less than a complete revision of the war settlement, under which the world had been uneasily ploughing its way forward since 1918, and the establishment of effective international co-operation alike in the political, financial and commercial fields.

The correctness of this analysis was largely confirmed by the report\* of the powerful committee set up by the Bank for International Settlements under the chairmanship of Mr. Albert H. Wiggin of the Chase National Bank. They stated their view that without the restoration of Germany to economic health, there could be no escape from the bog of falling prices and shrinking confidence for the rest of the world. But for Germany's recovery, two conditions were essential, the removal of political dangers and the lightening of her burden of indebtedness.

The body of the world's commerce, whose vitality is already low, has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished, but only if the governments of the world will realise the responsibility which rests upon them, and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that, before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the *sine qua non* of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.

Taking the state of Germany as their text, the Bankers' Committee further insisted on two general conditions without which there can be no expectation that the depression will pass. First, the normal process of investment must be resumed "with a well-defined economic purpose in view—namely, an increase in the purchasing power of the world." Secondly, the elimination of the present

\* Signed on August 18.

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contradictory state of affairs, which "involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods."

The prospects of a general recovery, with which the recovery of Great Britain is indissolubly linked, may be judged by the prospects of this simple but formidable programme, laid down by ten men representing the banking systems of the ten strongest financial countries. Incidentally, it may be remarked in passing, that it is a real advance that there should now be international machinery which permits of common principles of financial policy being worked out and authoritatively stated by leading financiers drawn not only from Europe, but also from the United States and Japan; further, that even the formulation of such a policy is a light in the prevailing darkness. Unfortunately, its execution does not, in the main, rest with those who drew it up. The primary condition for its success is action by governments to remove the political malaise, from which ultimately flow the hesitancy of capital to perform its ordinary functions, and consequentially the general shrinkage of purchasing power. It is as true now as three months ago that the main exit from the *impasse* lies through the political door. The international situation must therefore claim first consideration in any estimate of the hopes of economic revival.

At a first glance, it cannot be said that the outlook has changed substantially for the better between July and October. The British crisis had the effect of seriously weakening for the time being, one of the most powerful influences for stability and reconciliation in Europe. Whatever its faults in other respects, the Labour Government had exerted a steady and successful pressure in the direction of peace and disarmament. Its efficacy may readily be judged by the exultation which greeted Mr. Henderson's downfall in those French circles which have been most actively hostile to a conciliatory attitude towards

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Germany and to the Disarmament Conference. No doubt Mr. MacDonald had no intention of altering the general policy, which he had pursued as Prime Minister for two years, but for a time, British influence abroad was paralysed by the internal crisis. The new Foreign Secretary was so deeply occupied with the financial and political problems of the moment, that he had little time to devote to the broad questions of international policy, and was unable to attend the Assembly of the League. During those weeks, things did not stand still, and the disappointing results of the discussions at Geneva were ascribed by many to the absence of a clear and authoritative lead from Great Britain. These temporary incapacities have now been removed, and this country is once more in a position to play a leading rôle in world affairs. All parties are united as to the broad outlines of our foreign policy. Though they may not be all equally fervent in their advocacy of disarmament, or equally aware of England's vital interest in securing continental stability, the false antithesis between imperial development and the cultivation of our European markets is not likely to obscure the tremendous issues which have now sprung to life, and which are bound to affect our national future profoundly. If there is no *rapprochement* between France and Germany there will be steadily growing estrangement. If there is no first step towards general disarmament next year, the signal will have been given for general armament. The result of either or both of these eventualities must be to aggravate the existing nervous apprehension, to postpone complete economic recovery indefinitely, and in all probability to prepare a new conflagration against which no cloak of isolation will afford any certain protection to these islands. At such a momentous time, British statesmanship may be called upon to play a decisive part. The exaggerated conclusions drawn abroad as to the solidity of England's financial power are now being quickly dissipated. The abandonment of the gold standard naturally produced a

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world-wide shock, but comprehension is now dawning abroad that, so far from the sensational anticipations of England's decline and ultimate fall being realised, the revaluation of the pound may prove to be the first tonic needed to restore British commercial and financial vitality, which has been so conspicuously subnormal ever since the war. The time is therefore propitious for re-establishing complete confidence in England's future action by demonstrating once more her capacity for leadership in international affairs.

While the prospect was momentarily darkened by the temporary relaxation of British effort, it was brightened by the gradual emergence of the United States from isolation. The serious position of their industrial and financial system brought forcibly home to the American public that they too could not look for recovery by their own endeavours alone. Prices and production continued to fall; unemployment continued to rise. The budget deficit for the year ended June 30, 1931, amounted to the formidable sum of \$516,000,000, after deducting sinking fund payments, while the outstanding public debt had increased by \$616,000,000.\* Nearly 3,000 banks closed their doors, with the result that public confidence was undermined and withdrawals took place on an alarming scale. It was said that the only flourishing industry in the United States was the manufacture of safes and cash-boxes. These events convinced not only the financiers, who probably needed no convincing, but also the White House, that the American Government must throw its weight into the scales in order to promote political and financial stability in Europe, without which there could be no solution of its own troubles before the Presidential Election next autumn. We have accordingly witnessed three very notable events; first, the participation of an American delegate in the discussion of the proposed truce in armaments in the Third Committee of the Assembly of the League; secondly, the presence of

\* *The Economist*, August 1, 1931, p. 28.

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an American representative at the sittings of the Council called to deal with the Sino-Japanese quarrel; and, thirdly, the visit of M. Laval to Washington at the invitation of Mr. Hoover, to be followed by a similar visit from Signor Grandi. There is no mistaking the general purport of these things. While it would be a gross error to suppose that the United States was on the point of joining the League or of taking sides in European politics, nevertheless her attitude of detachment and self-imposed solitude has come to an end. Everyone who has the cause of peace and disarmament at heart must heartily welcome this change, for without American aid no political or financial resettlement is possible.

But what of France and Germany, who still constitute the hard core of the problem? As Lord Cecil has said, the establishment of harmonious relations between them would at once remove 75 per cent. of our troubles. The basic condition of recovery postulated by the Bâle bankers would be fulfilled, and the world would begin to breathe more freely. Unfortunately, there are few reassuring signs to be discerned. Germany's position remains as precarious as ever.\* Another extension of her short-term credits has inevitably been granted, but at the time of writing no real step has been taken to put German finances on a sound footing. The French visit to Washington has disappointed the expectation that it might produce some joint plan for scaling down debts and reparations. Failing this, Germany will continue to hang like a sword of Damocles over Europe. She is attempting to meet her foreign obligations by the only method open to her, namely, drastic restriction of imports and stimulation of exports at low prices. This means widespread unemployment and depressed standards of living within the country, the shrinkage of the German market for the goods of other countries, and the intense competition of German goods with those of other countries abroad. It is characteristic that during the first six months

\* For an account of the situation in Germany, see page 71.

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of this year our exports to Germany declined by 50 per cent. as compared with the same period in 1929, while British imports from Germany diminished by about 10 per cent. only. The British experience is that of a number of other countries. Germany is buying a favourable trade balance as the only means of paying her debts at the price of severe privation, which has rendered a critical internal situation still more critical. Parliamentary institutions have been practically suspended since Dr. Brüning obtained a blanket authority to govern by decree by a bare majority of 25. The Hitlerites and the Communists are still gaining ground at the expense of the parties of moderation. Everyone is asking the question whether the Government can see the winter through without an upheaval.

The answer probably lies with France, but as yet there has been little indication of any change in temper there. The Berlin visit of M. Laval and M. Briand produced a slight relaxation of tension, but no tangible result, except the creation of a joint industrial commission, which cannot approach any of the fundamental problems. The momentary improvement of French feeling was quickly obliterated by the Nationalist demonstration at Harzburg, which revived French fears and distrust in all their intensity. It is true that the death of the Customs Union with Austria has removed one bone of contention; but as its demise was due to French financial pressure, its burial has been an added cause of bitterness in Germany without creating any sense of greater confidence in France. The burning questions of reparations and disarmament have not been touched, to say nothing of the wider problems of Treaty revision. On all these matters the attitude of the French Government and of the bulk of French opinion is still apparently adamant. M. Laval's declarations at Washington, the speeches of M. Maginot, the attitude of the French delegation to the Italian proposal for a truce in armaments at Geneva, all seem to suggest that France is

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disposed to rely on her military and financial power to maintain the *status quo* at any cost, even if it involves a revolution in Germany. The only circumstance which might apparently modify this intransigent position would be the consent of the United States to enter into a consultative pact, or at least to agree to withhold all support from a nation declared by the League to be the aggressor. Without some such reassurance it is difficult to see how French apprehensions are to be sufficiently allayed to allow of any effective measure of disarmament, through which the main road to restored confidence now lies, for without it there can be no real understanding between France and Germany. It might be thought that, after co-operating with the League in dealing with the Far Eastern dispute, Mr. Hoover would consider that such a request did not greatly exceed the limits which American policy had already reached; but Senator Borah's denunciation of military or economic sanctions is not of good omen. The League's intervention between China and Japan has now assumed capital importance for the future not only of the East, but also of the West. Every possible moral pressure has been exercised by the great nations of the world, jointly and severally, upon Japan. If the Japanese succeed in demonstrating that a country resolutely determined on aggression can defy international public opinion with impunity, the consequences will be far-reaching. The thesis that forcible measures for the prevention of war are unjustifiable because they are unnecessary, widely held in America and in some circles in England, is now being put to a crucial test. If the League fails to induce the retirement of the Japanese troops, the French argument that there can be no disarmament without an effective international force will be greatly strengthened, and the whole system of mutual guarantees dangerously weakened. The fate of the Disarmament Conference now largely hinges on the success or failure of the Council, reinforced by the United States, to prevent an outbreak of hostilities in Manchuria.

## The Conditions of Recovery

### III. THE CONDITIONS OF RECOVERY

FROM the foregoing survey it may seem that the political outlook is darker than ever; and yet there are some silver linings which may be detected in the clouds. The very gravity of the economic crisis, to which political uncertainties have so largely contributed, is in its turn producing some favourable reactions on politics. There is hardly a country in the world which is not confronted with an actual or prospective budget deficit. By the inevitable operation of economic laws France is now threatened, as England was six months ago, with a wide gap between revenue and expenditure coupled with an increasingly unfavourable trade balance. Reference has already been made to the United States. As commercial activity declines, national revenues are shrinking everywhere. Fresh sacrifices are demanded of the taxpayer, which his own dwindling income makes him progressively unable to meet without further contracting the volume of purchasing power, and thus further slowing down the turnover of business. Even the drastic reduction of salaries, wages and social services, with all the risks which it entails, offers no escape from this vicious circle. It can retard the deficitary process, but cannot arrest it. In these menacing circumstances governments are being forced, however reluctantly, to turn their attention to the real remedies. It is significant that Signor Mussolini, with characteristic directness, has openly demanded not only disarmament and the reduction of war debts and reparations, but even the revision of the Treaties. It is equally noticeable that Mr. Hoover has already curtailed naval expenditure and has now found a powerful counterpoise to the advocates of a bigger navy in the adversaries of higher taxation, a far more numerous body whose electoral power is considerable. It may be wondered whether M. Laval,

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who will not sacrifice a single battalion to obtain relief from war debts, may not consider the sacrifice as a preferable alternative to increasing the burden of the taxpayer further.

Finally, there is the international monetary problem to be faced. As long as the pound remains divorced from the gold standard, a major influence will be at work in opposition to the re-establishment of settled conditions. The French and American Governments have agreed to maintain the gold standard at all costs ; but can it be permanently maintained unless the pound is stabilised, and can the pound be stabilised unless there is a much greater measure of security for trade and investment abroad than exists at this moment ? There is no reason to suppose that the possible consequences of the devaluation of sterling have been by any means exhausted. Both as banker and trader, Great Britain plays so preponderant a part in the world's economic affairs that the instability of her currency is a menace to everyone. She was forced to abandon the gold standard mainly on account of its failure to operate normally under post-war conditions, for reasons which were expounded with prophetic clearness in the Macmillan Report. Until there is some effective international arrangement to ensure that it will function less capriciously in future, it is hard to see how the pound can be safely restabilised in relation to the franc and the dollar. It is on this point that all parties in England are united in demanding an international conference to work out a fresh monetary basis for the world's commercial transactions. There is still unremitting hostility to this idea in French and, to a lesser extent, in American circles, where the adoration of gold is still the orthodox religion. Only as the god's fallibility is exposed by events, will it be seen to be necessary to create an international organisation, not for the blind worship of gold but for its rational utilisation. That point has not yet been reached. No country is immune from the fatal effects of the complete dislocation

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of the world's economic machinery, but its operation only becomes slowly perceptible. Until the measures needed to counter it are generally understood, a return to the gold standard would be hazardous. In the meanwhile it may be worth considering whether some arrangement cannot be worked out for fixing the exchange-rates between the currencies of the Empire as a first step towards general stability. Such a move might have important consequences.

The fall of the pound from its pinnacle marked the culminating point in the logical evolution of the crisis. It must either precipitate a general catastrophe or compel the beginnings of a concerted and intelligent effort to build a new and more orderly world, based on the recognition of the mutual rights and essential interdependence of nations. The process will be long and difficult. It will require concessions and adjustments in the political field, demanding a wisdom and moderation for which the present generation has not been conspicuous. It will require the re-enforcement of the League machinery to render peace more secure than it is yet. It will also require the application of the bankers' programme. As long as the competition in tariffs continues, there is no hope either of profitable business or of financial equilibrium. The free movement of goods is now hamstrung by national obstacles raised in the vain hope of achieving what no country can ever achieve—a creditor position coupled with excess of visible exports over imports ; or the retention of the home market in an increasing degree for the domestic farmer and manufacturer coupled with the maintenance of a flourishing export trade. These simple yet difficult truths have still to be thoroughly digested, both in Europe and America, before any permanent bulwarks can be erected against future flood-tides of depression. As the bankers put it, "financial remedies alone will be powerless to restore the world's economic prosperity, unless there is a radical change in this policy of obstruction, and international commerce—on which depends the progress of

## The World and the Crisis

civilisation—is allowed to resume its natural development.' The choice is clear enough. The world-wide economic machine which the twentieth century has brought into being cannot be worked on principles of unlimited national egoism without regard to the general interests of the world's economic and political equilibrium. The present crisis has been brought about, because those interests have been ignored in certain countries, and will not be completely lifted until there is general agreement that they must be given paramount consideration.

The need for a thorough review of the international elements in the crisis is particularly urgent at a moment when signs of business revival are again becoming faintly apparent. The run on the banks in the United States seems to have been brought to a halt by Mr. Hoover's guarantee fund. The readjustment of British costs by the return of the pound to an economic level is reducing the burden of unemployment, reopening channels for investment and correcting the balance of British trade. The rise in the price of wheat, if maintained, promises to restore the purchasing power of the farmer, particularly in Canada and the United States. The upward movement of silver may reopen the markets of the East. If these favourable symptoms are encouraged by an attempt to remove the causes of international friction and maladjustment, they may develop into evidence of approaching convalescence. If, on the other hand, nothing is done to cure the international evils, recovery may be again nipped in the bud as it was in the early summer. Mr. Hoover and M. Laval have already publicly recognised that the real task of the Disarmament Conference is the restoration of peace and stability and have agreed to co-operate to that end. But the political cannot be separated from the monetary problem. Both must be tackled, either simultaneously or conjointly. To wait until February before anything is done, or even begun, involves the risk of fresh upheavals in central Europe, which may destroy the hopes of recovery

## The Conditions of Recovery

now making themselves felt. It is surely not beyond the means of the Government of this country, armed with such an overwhelming mandate, to take the initiative in seeking a new foundation for the world's credit and banking system, which in spite of all the vicissitudes of the last month is still centred in the City of London.

and every day a new and larger number of people are turning to the church, and it is to the church that the people are turning in these days of trouble. The old church is gone, but the new church is here to stay. It is here to stay.

## RUSSIAN REALITIES: THE PROTESTANT RELIGION

### I. THE RISE OF PROTESTANTISM

NOTHING so clearly shows the rapidity with which the old world is disappearing in Soviet Russia as the state of religion. On my first visit in 1923 I found atheism already rampant, especially among the young. It was, however, still possible to make out a case for religion, and even for maintaining its vitality. In town and village alike the church was still a conspicuous object, and the Greek Orthodox priest, with his flowing locks and his dangling gaberdine, was a no less conspicuous figure in local society. Attendance at services had, it is true, fallen off woefully, but there were still congregations, and few churches—less than two per cent. of the whole number—had closed. Country girls were seldom willing to be married except by the priest, and although masses of peasants had given up going to church, they went on having their babies christened, and they always sent for the priest when there was a funeral. New religious sects had even sprung up—Protestantism especially seemed to be in for a new lease of life. In spite of the Revolution then religion was, on the surface, still flourishing.

How utterly different is the scene to-day! In the towns the church is no longer a landmark. No new ones have been built, and many of the old ones have either been put to new uses or pulled down to make room for other build-

## The Rise of Protestantism

ings. There are, no doubt, enough Orthodox places of worship still functioning to accommodate the ever-dwindling number of the faithful, but the congregations are too poor to keep them in repair, and unless something unforeseen happens, they will soon have to be taken over by the State, if only to save them from collapse. The priest is rapidly disappearing, and the few who are still about are a sorry sight—old, shabby and decrepit. They are dying out and there is no one to take their place. In the course of my wanderings this year I did not come across a single young priest. The village girls no longer insist on being married in church, and christenings and religious funerals are going out of fashion. Look in any direction you like, you will find nothing but decay in the Greek Orthodox Church. All the old religions, indeed, are succumbing to the onslaught of the Revolution. Mahomedans, Roman Catholics and Jews of the older generation cling more tenaciously to the faith of their fathers, but their future is also dark, for they too are losing their young people.

To this universal *débâcle* I came across only one exception—the so-called sects. I am speaking not of the mystical but of the rationalistic sects. They consist of common folk, chiefly peasants or labourers who, dissatisfied with the shortcomings of the old church, had, sometimes with the aid of some outside preacher, sometimes entirely on their personal initiative, set up religions of their own. Two outstanding examples are the Baptists and the Evangelical Christians, who between them have several million followers. These are the Russian Protestants, and they have contributed a stirring chapter to the religious history of their country—even, one might add, to the history of the Revolution itself.

The career of Protestantism in the time of the Czars was a chequered one. It had its birth in martyrdom. It had no sooner made its appearance and shown itself capable of attracting converts than the Greek Church began to look upon it as an enemy and a rival, and to try

## Russian Realities : The Protestant Religion

its best, with the help of the old government, to suppress it. But Protestantism would not be suppressed. It thrived in spite of persecution. The Protestant flocks were primitive folk, just as Russia herself was a primitive land. Their faith, indeed, retained a good deal of the character of early Christianity. Its survival was in no sense due to organisation, or to the union of the different groups, but simply to the devotion of the individual. It saw in religion not merely ceremonial, but a way of life, a body of principles to guide man in his relations with his fellow-men and with the outside world. The Protestants read the Bible omnivorously, read, pondered and absorbed it. They taught each other to read so that they should all be able to study Holy Writ. Those who could not read had it read and expounded to them. Unlike the Greek Church, Russian Protestantism paid more attention to the meaning of religion than to its forms. Puritan to the core, it banned the use of tobacco, spirits, violence, abusive language, dancing, the theatre and other indulgences of the flesh. Yet its votaries were no ascetics. They did not shrink from what they regarded as legitimate earthly pleasures, and from their foreign brethren, chiefly Germans, they learnt modern methods of agriculture and the virtues of thrift, cleanliness and sobriety. They became, indeed, the most progressive farmers in Russia. "Sectarians (the reference was to the Protestants)," writes a well-known Bolshevik atheist in a pamphlet attacking all religions alike, "value highly literature on natural science and especially on modern agriculture." Coming from an enemy, these words are significant. In the course of my own travels I found the land of the Baptists and Evangelical Christians better worked than that of their Orthodox neighbours. They also lived a cleaner, more wholesome life and were better educated.

Then came the Revolution, and with it freedom for the sects. Because their members were mainly peasants and proletarians, who had been persecuted in the old days,

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they were regarded by the Communists as wards of the Revolution and accorded rights and privileges such as they had never enjoyed before. The Bolsheviks were at that time trying to break the power of the Orthodox Church, and, following their usual tactics of dividing the enemy's forces, they were only too eager to enlist the help of the Protestants in discrediting Orthodoxy with the masses. In 1924 I found, in city after city and village after village, the Protestants out in the open. Everywhere in the bazaars Evangelical and Baptist preachers were holding forth on the meaning of their faith, unmolested either by Soviets or Communists. In their local and national conferences both Baptists and Evangelicals passed resolutions thanking the Soviets for the consideration shown for their rights. In Moscow Seventh Day Adventists were allowed to hold a convention in the Third House of the Soviets itself. In Tzaritzin, now Stalingrad, the great industrial city on the Volga, and one of the revolutionary centres of southern Russia, a Baptist minister told me that the local Soviet was allowing him the free use of the city theatre on Sunday afternoons. He invited me home to meet his family and some of his flock, and as we sat round eating cakes and jam and drinking countless glasses of tea, his friends and he spoke with glowing satisfaction of the new hope that had come to their people in Russia. At last there was nothing to interfere with the free exercise of their religion ; Orthodox priests no longer spied on them, gendarmes no longer hounded them, and cossacks no longer dragged them to gaol, as in the days of the Czar. Baptists and Evangelicals were both quick to use their new-found liberty to emphasise the social side of their faith, which, on the surface at all events, was in harmony with some of the social objects of the Revolution. They formed clubs, co-operatives and mutual-aid societies ; they encouraged music and sociability, and they immediately began to attract people. What they offered seemed to be something quite new in religion—philosophy, good

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fellowship, kindness, practical help, a new social purpose, which, as already suggested, was in some ways akin to that of the Revolution—so at least it seemed at the time. Even the young, with all their distractions, found it worth their while to listen to the new word, and the Protestants did their best to win their ear. The law did not allow them to hold religious classes for pupils under eighteen, but it did not interfere with the organisation of clubs, picnics, festivals, musical gatherings, lectures and athletics. The young people indeed formed their own organisations—the Baptomol, for Baptist youth, and the Christomol, for Christian youth; names with an obvious family likeness to that of the Communist youth organisation, the Komasol, an instance of the open way in which the Protestants copied the social technique of the Revolution. In their dealings with the young they always laid stress upon the importance of cultivating good habits—self-control, politeness, industry, chivalry to women, respect for elders, and friendliness towards strangers. So much so, indeed, that the Soviet press would now and then chide the Young Communists for lagging behind the Protestants in this respect.

And so it came about—a sufficiently remarkable phenomenon—that, while all the other religions in Russia were losing ground with the new generation, the Protestants were not only holding their own, but attracting converts. No wonder that Bukharin, at a conference five years ago, warned Young Communists that, unless they got busy, the Protestants would have more influence on Russian youth than they had.

### II. A CHANGE OF ATTITUDE

WHEN the Bolsheviks realised how influential Protestantism was growing, they became alarmed. From one end of the country to the other one began to hear talk about the new enemy within the gates—an enemy which

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seemed, like the Phoenix, to have sprung out of the ashes of the old religions. A new campaign was at once set on foot. What the policy of the Bolsheviks would have been if the New Economic Policy had been continued, it is hard to say. But with the leftward swing of the Revolution, their hostility to Protestantism was bound to grow, for, from their standpoint, it had now become the chief counter-revolutionary force in the country. Nothing indeed so eloquently gives the lie to the plea, which sentimental liberals often put forward, that Russian atheism is merely a reaction from the degraded condition of the old Church, as the new attitude towards the Protestants. It has changed from one of benevolent tolerance to unmitigated enmity. In cartoons and pamphlets the Protestant now figures alongside of the other active enemies of the Revolution—the “damager,” the priest, the kulak, the bootlegger, and the rest.

What, then, has caused this change? To find the answer we must examine the fundamental and irreconcilable principles to which the clash between Bolshevik and Protestant in their approach to the problems of life is traceable. Certain features in the community life of the Russian Protestants would at first glance suggest that, both in their theology and in their social views, they are modern and progressive. Yet, nowhere in the world could one find a more primitively fundamentalist type of Protestantism. The Bible is its sole source of inspiration, its guide in thought and action, and anything which seems to it subversive of Bible teaching it rejects as untrue and unworthy. This by itself was sufficient to bring upon it the wrath of the Bolshevik. Russian Protestantism has no more use for evolution than American fundamentalism has. To the Bolshevik, on the other hand, science is the law of life, and evolution its chief glory. Nor could the Bolshevik remain indifferent to the uncompromising puritanism of Russian Protestantism. It forbids divorce, abortion and birth control; it looks upon the theatre as

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something degrading, and, in certain spheres, it encourages the segregation of the sexes. Fundamentalism versus science was the first issue over which Bolshevism and Protestantism crossed swords.

Dogmatism versus flexibility was the second. The Bolshevik charge against religion, especially a religion of so fundamentalist a kind as Russian Protestantism, is that it is rooted in dogma. The fixity of purpose which such dogmatism implies they consider to be incompatible with both the principles and the practice of the Revolution. It is useless to tell them that Marxism and Leninism have, in their hands, become just as rigid as anything to be found in fundamentalism. Their reply is that this is not so. Change, on the contrary, is, they say, the very essence of Marxism, which at best is itself merely a way of approach, an instrument of guidance. They love to quote Karl Marx's answer, when someone once asked him what was his chief diversion : "To subject everything to doubt." Lenin himself spoke of Marxism as a "guide to action." For the Bolshevik it is dynamic, something that never stands still, and Communism, though a future, is by no means the final, stage in human development. They consider that this attitude is at the opposite pole to the dogmatism of Protestantism as they see it.

Reverence for authority supplies a third bone of contention. It is true that the authority to which the Protestant looks is not an earthly authority. But for the Bolshevik it is enough that it affects life and conduct. For him the very act of worship implies a recognition of this authority, and is a confession of man's weakness in its presence. Besides, the authority itself is derived from a self-contained, arbitrary and exclusive power which is represented upon earth by a group of its own—clergy and prophets. In the eyes of the Bolshevik this group itself constitutes an aristocracy, and expresses a will which is not that of the masses. The masses, indeed, have themselves to honour and obey this aristocracy. The system is thus a duplication

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of the very one which obtains under a capitalist régime ; it represents rule from above instead of rule from below, mastery on the one side, and subordination on the other. At the all-Russian atheist congress in Moscow in June last year Bukharin dwelt at length on this phase of the quarrel between Bolshevism and Protestantism.

It may be said that the Bolshevik dictatorship is the most hide-bound authority on earth ; but to this the Bolshevik replies that it is only a temporary phase, incidental to the transition from an individualist to a collectivist state of society, and destined, like the State itself, the instrument through which the dictatorship exercises its will, to disappear in due course. Eventually there will, they say, be no ruling class, indeed no classes at all. Humanity will then consist only of producers, and the real power will be vested in the masses, with nothing above them—neither God, angels, nor church—to keep them in a state of subjection. All authority, initiative and creative energy will derive from them. And so it comes about that the fight against Protestant reverence for authority is, in Bolshevik eyes, a fight against the very evil which lies at the root of the civilisation that they are determined to destroy. The Christian doctrine of toleration, too, a dead letter in the Greek Orthodox Church, but dear to the heart of Russian Protestantism, is particularly objectionable to the Bolshevik ; for, under it, man always comes first. Wherever he is concerned, social origin, economic pursuits, and political allegiance take a second place. Whatever the circumstances, he remains an object deserving of pity and forgiveness and the respect of his fellow-men. This doctrine is the negation of the theory which underlies the class war, and to the Bolshevik, immersed in his five years plan and his struggle to reconstruct society on a non-class basis, it is naturally anathema. For it demands respect for the kulak, the nepman, the counter-revolutionary, the "damager," and others whose extermination the Bolshevik deems essential. The sworn enemy of individualism, and bent on its destruction,

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he has nothing but contempt for a religion which extends a welcome to the wealthy and the needy alike. The time for toleration will come, he says, when his new system of society is established, but to-day, while he is still engaged in a desperate fight to ensure its realisation, Christian toleration seems to him to be just social and political suicide.

The clannish tendencies of Russian Protestantism also provoke the hostility of the Bolshevik. Evangelical Christians and Baptists speak of the members of their own folds as believers, and of others as unbelievers. Though bent on making converts, they nevertheless keep very much to themselves in their social and charitable work—indeed in all their activities. They address one another as brother and sister. Even more than their co-religionists in foreign countries, they look upon themselves as a brotherhood complete in itself. But to the Bolshevik, with his exaggerated suspicion of anything different to himself, this means separatism, detachment from the masses, an attempt in fact to break up the unity of his new society. Nor does it give him pleasure to see his own trade unions break up into smaller units, and turn aside to pursue what he regards as extraneous aims. He remembers how certain groups of miners in the Don basin, and of textile workers in Ivanovo, and of builders in Moscow became converts to the Protestant faith.

He is afraid, too, of the Protestant church becoming a city of refuge for the counter-revolution, and it is this which keeps the edge of Communist hostility so keen. The church, after all, was the only organisation allowed to hold meetings of a non-revolutionary nature. It is true that there is nothing in its form of worship which in itself constitutes a threat to the Revolution ; but—so the Bolshevik reasons—political plots might be hatched under the cloak of religion, and if Protestantism were to go on spreading, it might in time attract counter-revolutionary elements, who would thus find a place where they could meet and co-ordinate their efforts ready to hand. Foreign help, too,

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might be forthcoming in the guise of religious contributions, and the church organisation would make it easy to get into touch with foreign conspirators. To the outsider, these fears may seem exaggerated; but to the out and out revolutionary they are as natural as his faith in Marx and Lenin.

The pacifist tendencies of Russian Protestantism add further fuel to Bolshevik rancour. It is true that neither the Baptists nor the Evangelical Christians have formally adopted pacifism. It is for them an open question which each individual must decide according to the dictates of his own conscience. But the trend of their teaching is all in that direction. The Bolshevik, it must be remembered, is obsessed by fear of foreign invasion. His mood, his outlook and his behaviour all take their colour more from this fear than from any other single factor. This is not the place for a discussion of the cause of this fear or how far it is justified, but its existence is a dominant element in the present day situation. It accounts for the militant spirit, the preparedness campaign, the incessant parades of men and women with rifles on their backs and the warnings to the people to get ready at all costs to meet the attack from outside. In the summer of 1931 there was a marked abatement of this fear, but some untoward circumstance may at any time fan it once more into flame. It is inevitable in these circumstances that a movement like pacifism, which might seriously interfere with his preparedness for war should be regarded by the Bolshevik as a direct menace to his safety.

Lastly, there is the economic situation, and here again one finds the Bolshevik and the Protestant at loggerheads. Bolshevism spells death to private property—the Bolshevik is determined to wipe it out. The Protestant's view is different. He may not believe in piling up riches, but neither Baptist nor Evangelical Christian condemns the institution of private property in itself. Their cartels and co-operative establishments were among the most successful

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in Russia. In Moscow the Evangelicals used to run a number of vegetarian restaurants which were among the best eating places in the city ; but being outside State control, they might, from the Communist standpoint, just as well have been private concerns owned by a private individual. Protestant peasants too, as has already been pointed out, were among the thriftiest in Russia, a result due to their personal habits and to their higher cultural standing. But it is only a truism to say that the more prosperous the farmer the more hostile his attitude is likely to be to the collectivisation of the land. Besides, the Protestant knows well enough that on the collective farm he will find a tense revolutionary atmosphere. The principles of the Revolution with regard to family, religion and the relationship of man to man and of man to woman—principles which he could never accept—would be assiduously propagated. He would not be stopped practising his religion in his own manner, but in the course of his every day life he would always be coming up against the Revolution and its requirements. His children would have to attend the nurseries, the kindergartens and the schools, and would soon slip away from their parents' influence. If the Protestants had been allowed to form their own collective farms they might have acquiesced in the new movement, but that was out of the question. A clash, and a bitter one, was therefore unavoidable over this particular issue.

### III. THE COUP DE GRÂCE

WITH such divergent views on questions of principle and practice, both in the social and the economic sphere, it was only natural that Protestantism, as soon as its exceptional capacity for rapid growth had become evident, should attract the active hostility of the Bolsheviks. Here was a new influence in their midst, spreading through farm and factory alike—the very citadels of their

## The Coup de Grâce

power—an influence quite unlike that of the old Orthodox Church ; no mere cloak this of antique formalism sure to split from top to bottom before the first gust of modern ideas, but a new spirit, a body of ideas which had sunk deep into the hearts of those affected. No wonder that Lenin's widow pronounced the Russian Protestant a greater menace to the Revolution than Orthodoxy, and Bolsheviks all over the country echoed her sentiments.

In their attack, propaganda has as usual played its part. But a still more deadly blow was the law of April 1929, a law which applies to all religious bodies alike, but which hits the Protestants harder than any of the others. For although the law re-asserts the principle that religious confession is free and the individual has the right to worship in whatever way he chooses, it does not, as the old law did, permit religious and anti-religious propaganda alike ; it only allows anti-religious propaganda. This, of course, has put an end to missionary work and to preaching in bazaars and other places than officially recognised places of worship. There is a further provision which bars clergymen from ministering to more than one congregation at a time, which therefore stops Baptist and Evangelical pastors from visiting other congregations than their own. But from the point of view of the Protestant the unkindest cut of all was the revival and amplification of an old law which prohibited a religious body from exercising so-called "administrative functions." In the early years of the Revolution, for reasons already explained, the Soviets refrained from applying this law to the Protestants. Had they done so, Protestant social work would have been impossible, for an organisation which has no right to exercise administrative functions obviously cannot take part in social work. But the new law does more than put a ban on such functions. It specifically prohibits religious bodies from pursuing any activities whatever except worship. It permits freedom of worship and nothing else. This puts an end to co-operatives, club houses, and mutual aid societies—the very

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things that have helped the Protestants to gain their hold upon the masses. At the same time the spread of nurseries and kindergartens and the introduction of universal education is, as I have pointed out, subjecting Protestant children to a thorough process of sovietisation. Some of them will no doubt be saved by their parents for their faith, but only some.

## GERMANY IN THE STORM

(FROM A GERMAN PEN)

THE crisis is a world-wide one, but the student who wishes to understand every aspect of it, the economic, the political, and even the less studied psychological side, cannot do better than turn to Germany. Here he will find everything—bankruptcies on a scale which puts those of other countries in the shade ; efforts of unrivalled brilliance to modernise and rationalise industry, and to adapt it to the changed conditions of the world ; gigantic conflicts in the region of ideas—the duel, for instance, between Dr. Brüning and Herr Hitler. If he wants a striking instance of a *reductio ad absurdum*, the consequences of certain Articles in the Peace Treaties which were formulated in those days of happy illusion at Versailles will strike him in the eyes ; and, lastly, where else could one find the ridiculous results of a badly managed distribution of international gold and capital more perfectly illustrated ?

The consequences of the Great War have visited every country in varying degree, but they all seem to have converged on Germany. She has, it is true, great advantages ; a thoroughly efficient industrial equipment, and a highly trained population of workers, the majority of whom, though insistent upon drastic reforms, are firmly resolved to re-establish their country on its traditional capitalist basis—they have no use for Bolshevik experiments. Germany's interests are indeed indistinguishable from those of Great Britain and other countries with a similar system ; but, left to herself and denied international support and

## Germany in the Storm

encouragement, her condition is bound to become desperate, and through her open wounds the blood of the whole Western world will continue to ebb.

### I. RECONSTRUCTION AND DISILLUSIONMENT

THE economic and financial effects of the war were catastrophic—like those of an earthquake—and the period of inflation which followed brought in its train a total “revaluation of all values.” Yet Germany, when she emerged from these catastrophes, made a tremendous effort to re-establish herself on a sound basis—any other course would have been unthinkable for such an orderly, disciplined nation. In those early days, moreover, the average German was sure that everything would come right if only he could get his economic and financial machinery working at full speed. Were not prosperity, work and profits the best stepping-stone to a healthy national life? People’s eyes were at that time fixed on America—happy, prosperous America—the country without unemployed and “without a social problem.” It might take time, the German argued, but in any case the best way of catching up the nations which had won the war was to become strong again in an economic sense.

So Germany set to work. She reorganised her industries from top to bottom. She invested hundreds of millions in them, most of it borrowed from abroad. Rationalisation and efficiency: these were her aim. There were combinations of companies; colossal industrial and financial organisations were established; new plant of the most up-to-date kind was installed, and expensive—even luxurious—offices and government and municipal buildings were erected. The cities followed the lead of industry, and the trade unions and other bodies did the same. There was on almost every side vitality and hope.

And it was needed. A great deal had to be done to make up for lost ground, not only to replace old-fashioned

## Reconstruction and Disillusionment

concerns no longer capable of holding their own against competition, but to fill the gap left by the loss of the industries which went with the territories of which the Treaty of Versailles deprived Germany. As in England, reconstruction was facilitated by new inventions and developments. This was especially the case in the chemical and electrical industries, but others, such as artificial silk, lignite, nitrogen, potash and motor-cars also benefited. This work of replacement and expansion was carried out energetically and efficiently, and our industries had a good deal of luck, especially in the matter of competitive wages.

Things, indeed, went well, and in a few years' time, except in the old middle class, whose standard of life was still sinking, there was not only a considerable amount of individual prosperity, but also unmistakable signs of progress on the part of the community as a whole. No less than ten milliards of reichsmarks were deposited by millions of small people in the savings banks, and only a few years after the ruinous inflation period the policies issued by life insurance companies were more numerous and for larger amounts than before the war. At the same time the Hapag\* and the Norddeutscher Lloyd had constructed a new mercantile marine well able to take care of itself against foreign competition. These are a few examples of an effort in reconstruction which won the admiration of the world. And it deserved it, for its results were achieved under the most trying circumstances. The Communists were every day growing more numerous, and, until 1930, a large and extremely important part of Germany was still occupied by foreign troops, the effect of which upon the national temper it is hard to overestimate.

Unfortunately, all the hopes pinned to economic reconstruction proved illusory. There were various reasons. For one thing, this false spring of ours was produced by foreign money—short-term loans at an exceedingly heavy rate of interest. For another, our new and more

\* Hamburg American Line.

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favourable balance sheet was doomed to be upset the very moment that it became necessary to pay reparations, which, like so many other debts, had hitherto been paid with money borrowed from abroad, out of the earnings of German industry. Germany was entirely in the hands of her foreign creditors, and of those creditors' creditors. What happened is now a matter of history.

For the moment, however, our political, financial and economic leaders seemed to ignore the facts ; at all events, disillusionment came through a sudden revulsion of feeling on the part of the rank and file. Millions of workpeople, especially clerks and other employees of their type, took a sceptical view. It was the same with middle-class folk of all kinds. They did not believe that prosperity was close at hand—why should they ? There was nothing in their own personal experiences to confirm such a belief. In other words, people in foreign countries who believed that it was possible, without changing the fundamental conditions, political as well as economic, to solve the German problem and persuade the fabled goose to start laying her golden eggs again, were as far from the mark as the Germans who thought that they could satisfy the German mind by stage-managing a kind of economic revival. Neither paid any attention to essentials. They left out of account both German psychology and the actual conditions under which the bulk of Germans were living.

A revolt was bound to come, a revolt against the system that disregarded these essentials. The general election in September 1930 took the whole world, including Germany herself, by surprise. It was more than a surprise ; it was a shock. Why did not the Government do something ? Prussia seemed to get along well enough under her Socialist Premier. Did the traditional obsequiousness of the German civil servant no longer hold good ? Had the German clerk lost his old faith in his satisfying if humdrum destiny of gradual social advancement ? Our sacrosanct system, moreover, has powerful supporters ; the President of the

## The Nazi Appeal

Reich, the Reichswehr, the Roman Catholic Church and the trade unions. Was it conceivable that these powers had failed to make its basis unassailable ?

Yet they had failed. The system was no longer immune from attack—and the attack spread rapidly. Workmen, peasants, students, clerks, schoolboys, officers, civil servants, artists, shopkeepers, waiters—people of all sorts—were growing restive, people who had remained patiently silent for years. It depended on their mental idiosyncrasies, and their greater or lesser readiness to respond to national or proletarian slogans, whether they became Communists or Nazis (National-Socialists). But they all had one aim in common—to pull down the old system, with its gloss of prosperity which, so it seemed to them, only served to conceal the real state of national bankruptcy underneath.

### II. THE NAZI APPEAL

AS far as the Communists are concerned, there is no mystery, but the Nazi mind many people consider is harder to fathom. There is, however, really no puzzle in this case either. Take any German who looks down on the Social-Democrats and hates the Bolsheviks, yet at the same time despairs of the present rulers of Germany. What line would one expect him to follow ? What he wants is a guide, someone who will put in unmistakable language all that he feels and more. Remember that nine out of every ten Germans want to make a better show than their position warrants. They have no desire to be called proletarians, to be put in the lower classes. Now the Nazis are no proletarian party. They represent, not a particular class, but a movement. It does not matter to them from what class they draw their recruits, or what their social standing is. Nobody, therefore, loses anything by joining them. Many even feel that they have gained in importance, because the party managers tell them that,

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however little they may count as individuals, they are of the utmost use once they have become members, even humble ones, of the great Hitler movement.

But, apart from this, it is obvious that, for the average German who feels deeply the evil days on which the fatherland has fallen from the national standpoint, and who at the same time is suffering personally from the grave crisis which has overtaken its economic and financial life, the combination of socialism and nationalism offered by Herr Hitler is bound to be extremely attractive. No other party has developed both these lines at the same time. Otherwise the Hitler policy might carry less weight, for its methods are often repulsive and its political and economic ideas feeble. Most people, indeed, realise to-day that the tide of Hitlerism could never have reached its present high water mark, if it had not found the German starved on the national and social side after years spent in the prosperity hunt and rationalisation. Republican Germany has hitherto failed to evolve either a healthy national outlook or a common social ideal. Many have attained these things, but so far they have remained merely a conception of the individual, not a political philosophy fit for the nation as a whole.

On the other hand, the objections people feel to the public attitude of many of the capitalist leaders are by no means limited to socialists. A growing number of scandals and obvious abuses of its power have made the capitalist system suspect even in the eyes of people whose admiration for it is traditional. Our social organisation and our political classes have also disappointed millions of Germans. This is the real background of Hitlerism. Its anti-capitalist policy and social programme may lack solidity and permanence in many respects, but jealousy and the natural bitterness felt by middle-class people who have lost practically everything—their money as well as their social and political standing—have come as grist to the revolutionary mill.

## The Nazi Appeal

It is safe to predict that the nationalist side of the Hitler movement will carry it further than its social side, and for this it may thank the nations which won the war and their policy towards the losers. From the German point of view, there is little to show for the trying time when the policy of fulfilment, started by Rathenau and carried on by Stresemann, was in force, and the German financial collapse was so closely bound up with international politics that it rendered a purely nationalist reaction inevitable. But the object of the nationalist movement, even in the form which the *Stahlhelm* gives it, is neither war nor revenge. The German likes uniforms and discipline. All those parades are merely the collective expression of the nebulous instincts of the individuals who take part in them. Discipline and make-believe help to keep the torrent in its own bed, and there is a formidable amount of fighting spirit bottled up in such organisations as the Hitler guards and the Red-Front of the extreme Left. Preparedness and a determination to be ready to meet attack from outside are recognised as a legitimate ideal even by the circles which surround our peace-loving Chancellor, and they must be taken in that sense. Sport failed to provide healthy young Germans with an effective vent for the combative spirit. There are, moreover, plenty of people still in far too intimate touch with pre-war institutions, and it is hoped that the more or less militarist organisations in which the *Wehrwillen*\* finds an outlet will provide a more effective safety valve for nationalist steam. It is even more important to realise that the policy of fulfilment has for years been dubbed inconsistent with German honour, inconsistent because it was applied to that hated Peace Treaty. Stresemann himself was suspected of compromising German honour and weakening our moral fibre. A nation with strong feelings was what was wanted, said the critics.

The attitude was natural. For most Germans, neither

\* Will to defend one's country.

## Germany in the Storm

the results of Locarno nor the evacuation of the Rhineland brought about any change in the international atmosphere. The evacuation was bound in any case to come unless France disregarded her obligations under the Treaty. In a word, the revolt owed its success in large measure to the international situation.

### III. DR. BRÜNING AND BANKRUPT PARLIAMENTARISM

**N**ONE of these things would, however, have been enough by themselves to make the patient, even indolent, average German bestir himself. It was the bankrupt state of the German parliamentary system that actually brought about the crisis. The political parties, especially the bourgeois, were no longer of any use as instruments for a live democratic system; they had no life in them, no one trusted them. The leaders, moreover, had no idea of what was going on among the rank and file. At Weimar\* every democratic nail they could lay hands on, including the disastrous proportional representation provision, was hammered home by the democrats. The system which emerged was strictly formal and doctrinaire, just in fact what one would expect in a country where everything has to be set down in black and white and formulated in the most scientific manner. This was, of course, the very way to kill parliamentarism. Furthermore, the long periods of coalition between the Catholic Centre and the Social-Democrats increased the danger of a misuse of administrative powers.

The want of a common national basis was an even more fatal defect for the purpose of the democratic game. There were not only devastating differences of opinion whenever a "national" question arose, but also a growing tendency to treat a particular part of the nation as beyond the pale, and to hold the Marxists responsible for everything that went wrong. The rate at which German parliamentarism

\* The German constitution was drawn up at Weimar in 1919.

**Dr. Brüning and Bankrupt Parliamentarism**  
was losing ground was further accelerated by the reckless way in which personal ability was wasted, a waste which is characteristic of German politics. The German longs for national heroes—he wants somebody to worship ; but let a politician or even a statesman raise his head so much as half an inch above the average level, and he will immediately become a target for shafts from all sides. At best he will be stamped as a party politician. It is not yet realised that democracy is the only form of government that can be worked without a hero, or even a man of exceptional stature. As, however, the German parliamentary system has not yet delivered the goods, there is a tendency to try to import the heaven-sent leader from outside. It is unfortunate that our captains of industry, more often than not, seem only to have to touch politics—a new game for them—to lose every good quality that they ever possessed.

The consequence is that, for the last few years, the Cabinet has been controlled by the parties. To secure a majority in the Reichstag the support of half a dozen of them is essential, and government policy has, in fact, been directed by a group of parties which differ widely from one another in their views. This unfortunate state of affairs came to a head in the time of Dr. Brüning's predecessor, Hermann Müller. The late Social-Democratic Chancellor was one of the best men in the democratic camp and he deserved a better political fate than he actually got. But he allowed the political groups to control the government, and as most of the majority parties endeavoured to pull him in different directions, he naturally came to grief. On the one hand, there were the Social-Democrats, out to uphold the principles of organised labour, on the other, there was, on the right wing, the German People's party, which had become an organisation for the defence of big business and the interests of certain industrial groups. In the course of this conflict the Müller Cabinet collapsed, and it is also the main cause of the difficulties

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which have confronted Dr. Brüning since he assumed the leadership eighteen months ago. Such questions as wages and unemployment insurance, if left to party politicians to solve, may in the end, indeed, have a more detrimental effect upon the fortunes of the Brüning Cabinet than the assaults of the so-called "National Opposition"—Hugenberg,\* Hitler and the rest.

When Dr. Brüning first took office, he hoped to solve the parliamentary problem by destroying the Hugenberg party, and building up a new front composed of all well-meaning people. A few weeks later, however—in April last year—it was already clear that this plan had failed. Only a few members of the Hugenberg party had come over, and the Chancellor found himself in exactly the same predicament as his predecessor, except in one important respect. To enable him to control the parties, the President had entrusted him with powers to govern and legislate under the famous Article 48 of the Constitution, and he could dissolve the Reichstag if it failed to agree. The majority parties either did not realise what this meant, or, like the People's party, they did not care. At all events, they went on playing the old game. None of them would give way; the People's party opposed everything that the Marxist Social-Democrats wanted, while the latter strongly resented Dr. Brüning's attempt to ride roughshod over the parties and to force the hand of Parliament under Article 48.

The climax came with the general election in September last year. The votes polled were a protest—against parliamentarism, against Marxism, against capitalism, against the Treaty of Versailles, against the economic depression, against everything indeed that was, or that seemed to be, amiss. The one thing in this chaotic state of things that staved off a still greater disaster was the old German sense of order and goodwill that has not even yet been altogether destroyed. The Nationalists of course

\* Leader of the Nationalists.

**Dr. Brüning and Bankrupt Parliamentarism**  
again emerged from the election as a minority, and the Communists did the same, though both of them were returned with a considerable accession of strength. But the outstanding feature of the election was the protest against the capitalist system in which Hitlerites, Communists and Social-Democrats all joined. It was only the divergence of their aims that prevented them from being able to form an alternative government. So the Brüning Cabinet continued in office, and things remained very much as they were before. That is still the position.

In reality, Dr. Brüning had again missed the mark. His aim was a government majority independent of the support of the Social-Democrats. The strength of the Nationalist vote, however, put an end to that, for the middle-class bodies, such as the old Democratic party and the old National Liberal party, were nearly put out of action by the success of the Hitlerites. Dr. Brüning himself was taken by surprise. The only course still open to him was to try to make the Cabinet less dependent upon the parties, and to reduce parliamentary business to a minimum. His chief difficulty was a personal one. His own conscience and that of the President obliged him to keep as strictly as he could within the four walls of the Constitution. There is nothing in it which compels a Cabinet to do what the parties want, but, on the other hand, it is expressly laid down that the Government must have the confidence of the Reichstag. The question then arose, was it possible to keep the parties at a distance, and to do things that they would not agree to, without losing the moral support of Parliament. This thorny problem still occupies Dr. Brüning's mind. It is also a difficult one for the parties, who have no desire to make themselves responsible for emergency decrees imposed upon the nation without the consent of Parliament. The present short sessions of the Reichstag may have extraordinary results, and a transformation of the German democratic system is taking place before our eyes. The change has not yet assumed definite

## Germany in the Storm

shape, and the negative side has hitherto been to the fore rather than the positive ; but, under Dr. Brüning's guidance, Germany is endeavouring to discover a more suitable kind of democratic government than the form which has developed during the decade since Weimar—a hard task under present circumstances.

During this transformation period the structure of government has had to rely upon the support of various supplementary props instead of on Parliament. First, there is the venerable President of the Reich, Field-Marshal von Hindenburg, with not only Article 48 at his command, but the Reichswehr as well, morally if not formally. Its commander and all its leading officers are beyond all question loyal both to him and his Chancellor. Then there is the hitherto solid block comprising the Roman Catholic Centre and the Social-Democrats in Prussia, the latter representing the trade unions, a combination which puts the all-important Prussian police at the disposal of Dr. Brüning.

This extraordinary combination has, however, inconveniences of its own. The very fact that, since the election—in spite of his anti-Marxist slogan—Dr. Brüning has been on good terms with the Social-Democrats increases his troubles with the anti-Marxists. He has made it quite plain that he will not destroy or even damage such important social institutions as the insurance system or the *Tarifvertragrecht*,\* which means that he will never be a statesman to the liking of the People's party or Herr Hugenberg. On the other hand, his relations with the President and his dependence on the goodwill of the Reichswehr are thoroughly objectionable in the eyes of the radical parties. They have, moreover, also alarmed foreign observers. He has had, too, to adopt an agricultural policy which is considered to favour the big agrarian interests without solving the agrarian problem, and which injures the non-agricultural population by raising prices. It is extremely important, too, to realise

\* Right of making collective agreements.

## Dr. Brüning and Bankrupt Parliamentarism

that the fact that the Chancellor has to pay a price for the support of these particular props during this period of change accounts for many of the things which have aroused foreign criticism ; the attitude of the Government, for instance, towards "national questions," such as the Stahlhelm parades, the construction of cruisers and the like.

It is quite possible that Dr. Brüning, himself a conservative by instinct, would have turned more readily to the right if the Nationalist slogans had not been of a kind to offend his sober temperament. He might have done so in any case, if he had been able to follow the usual parliamentary course. As already mentioned, indeed, he started, in April last year, with the idea of persuading the bulk of the conservative German Nationalist party to share the responsibility of government, and he made no effort to stop the "anti-Marxist" drive during the election campaign in the following September. He never claimed the prefix "Hindenburg" for his government, but he raised no objection when the aim of the election was declared to be the building up of a strong "national" government, and the ground on which he asked the electors to give him the clear majority that was denied him by the old Reichstag, was that his government enjoyed the confidence of the President. What he wanted was something "national," above parties and party intrigues.

It is the first time since Weimar that a German Chancellor has gone to the country with such an appeal. It made everyone who did not vote for him appear insufficiently "national." But this scheme also failed, and it did so because, in Germany (unlike England), there was a great movement on the other side which also claimed to be "national"—the Hitler party. For that reason the slogan of 1930 was changed—it became "Marxist or anti-Marxist," a war cry which corresponded more closely to the facts. But even this did not work. Parliamentary considerations as well as the exacting daily round compelled the Chancellor to keep on good terms with organised labour.

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A dictatorship would have been a way out, but, unless the dictator was ready to risk a civil war, it would not in the end have helped Dr. Brüning to avoid a compromise between the capitalist interests and those of the workmen. He was, however, never ready to accept a dictatorship, nor was it offered him. President Hindenburg would not have it.

It is an interesting speculation what would happen if the President should find an alternative government possible. Apparently there is little chance of such a thing in the present Reichstag. It would obviously have to be a government of the Right, and would require the support of the Centre party as well as of the Nationalists. But as long as the Centre see any chance of Dr. Brüning being able to carry on, he will have their backing. It may be that the wings of the majority parties will some day give up their obnoxious tactics. The Right had to come back, more or less, when it tried to withdraw from the Chamber last October, for there was no alternative government in sight, and a reconstruction of the present one would have made very little difference. The Right, therefore, are reserving their efforts. On the other hand, the Social-Democrats will do their best to prevent Dr. Brüning from being overthrown from their own side.

Everything therefore depends upon whether the Nationalists can prepare the way in the present Reichstag for an alternative government. The President will certainly not allow a general election in the near future, so the only course open to the so-called "National Opposition" is to organise demonstrations like the one at Bad Harzburg, in the hopes that the right wing of the Chancellor's majority may be tempted to fall out of the line. But, if they did respond, the position would still remain the same, unless the Centre party were to go Right. Even if the Brüning Government had been defeated in the Reichstag in October, and the President had asked some politician of the nationalist type—not Hugenberg—to try to form a government,

## German Policy

the new man would certainly have failed, because the President would not have given him leave to go to the country, and in that case Dr. Brüning would have been asked to carry on, vote of censure or no vote of censure. In view of these considerations, it is possible to predict with comparative certainty what is likely to happen for some time to come. Meanwhile there is a marked tendency to try to get a better atmosphere between the Centre party and the Nazis, and Hitler's spokesman in the Reichstag has also made it clear that the Nazis recognise the necessity of an understanding with France upon conditions which do not differ in any important respect from those which Dr. Brüning and others have frequently foreshadowed.

### IV. GERMAN POLICY

DR. BRÜNING then by his efforts to reconstruct the "system," both on its political and on its economic side, has certainly contributed, in however small degree, to the relaxation of the existing tension. The very fact that the Nazis have stood quietly by for so long, coupled with their leader's declared resolve to keep within the law, has made the prospect of revolutionary developments far less likely than it was a year ago, though on the other hand the growing intensity of the financial crisis has strengthened the ranks and embittered the temper of the extremists and made the general situation worse. We can but hope that the favourable tendencies will prevail. One thing is, however, certain. The prospect of imminent disaster last July convinced thoughtful Germans that if we wish to come through we must all pull together, and the morale of the nation has, with few exceptions, been admirable. This at all events is a hopeful feature. Anyhow, it must now be obvious to the meanest intelligence that Germany has no alternative except to concentrate on the really vital problems. Even the Nationalists realise the

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danger, and one hears much less talk about the need of a more active foreign policy. The customs union affair opened people's eyes. Dr. Curtius has gone and we try to forget that particular episode, hard blow though it was—the Austrian question lies very near the German heart. It was, moreover, meant to be a test case. The incident should anyhow prove that Germany, when she is in the right, is capable of taking action to protect Austria from Danube-confederation schemes and other French designs. Badly as it ended, there is no justification for the unfair attitude of self-disparagement which so many Germans have adopted towards this "adventure." It will, at any rate, keep the Austrian problem in the limelight for some time to come.

Since this episode, German foreign policy has taken a different and a more promising line, in which it has been assisted by the Hoover holiday, which made us feel that after all there is ground for hope that a more reasonable settlement may be substituted for the Young Plan. If so, much of the wind would be taken out of the nationalist sails.

If, then, Dr. Brüning approaches the problem in a frank manner, putting on one side everything which has no bearing on the immediate trouble, he will meet with little opposition. An understanding with France is already accepted in principle in practically every quarter in Germany, and, though such a policy involves putting off certain German aspirations, it is obviously out of the question to attempt to satisfy them at present. Germany's position too in the matter of disarmament has inevitably been weakened by her financial difficulties. There are only two problems, which cannot be long postponed. The first is the question of what is going to happen in February when the repayment of our short-term debts becomes due under the preliminary agreement; the second, what are we going to do before the Hoover holiday comes to an end next summer. Dr. Brüning's foreign policy will certainly be concentrated on these two points.

## German Policy

So much for the future, but a word is called for to explain German action during the past critical months. The July crisis, it must be remembered, had already gone some way before its existence was fully realised. No one could have anticipated the extent to which French action had accelerated its development and helped to alarm the world—the small German investor among the rest. It is the general conviction in Germany that both the nation and the Government did all they could to convince the world that they intended a fair and honourable settlement. The banks paid out money without stint till July 12, when two of them collapsed. The right thing was also, we consider, done after the collapse. Subsequent contracts have been strictly fulfilled, in spite of the harm which was sure to result from additional payments of such magnitude. Since then credits have become dangerously shorter and money dangerously dearer. The number of bankruptcies and failures has been large—between July and August it increased by 95 per cent. The last penny has been squeezed by the Government out of business concerns and individual citizens alike. The way in which imports have been cut down has elicited protests from all sides abroad. Not long ago we had a surplus of exports for the month of not far off 400 million marks, instead of the usual excess of imports ; but this result was only achieved at the expense of people who want to sell their goods to Germany. We have managed, by cutting down our trade and profits, to repay between the end of July and October another milliard of marks on account of our short-term debts, 400 millions of which were due under the July contracts, and during the first ten months of the current year over four milliards on short-term credit must have been paid back out of a total of roughly twelve milliards. But such huge amounts, on the top of all the other payments that have been made, could not be transferred during the worst depression in history, without painful repercussions, and the problem of the future cannot be solved without an

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international agreement. The German authorities, however, considered it their first duty to come to an arrangement which would permit of their short-term creditors getting their money back within a reasonable period. The position is clearly described in the famous Layton report, though the latest figures of Germany's external debt are even higher than those given in the report, and it is essential that the existing arrangement, which will come to an end in February, should be replaced by another. Meanwhile, we can only hope that there will be some indication before long of what is going to happen when the Hoover year is up.

Such is Germany's financial policy, and it is believed that there is no other way of avoiding bankruptcy or inflation. We all know people who would like to get out of paying their debts ; we have them here in Germany as well, and these are the people who are at the moment pressing for a policy of inflation. It seems beyond question that restriction of credit and deflation have gone too far, and many think that the mark has been stabilised at too high a level. There is a tendency, even in responsible circles, to try to get the resulting high pressure relieved, if it can be done without danger of inflation. When England's position, owing to the attitude of her creditors and the inability of Germany to repay her short-term credits, also became critical, and it was decided to allow the sterling exchange to find its own level without official management, the temptation in Germany to follow suit was great. Conditions in the two countries are, however, completely different, and besides, although a managed currency need not lead to inflation, people in this country have such a horror of the possible risks to which such a course might expose us, that the first note of alarm in the press was sufficient to elicit a declaration, from parties and industrial organisations alike, that nothing would induce them ever to recommend an inflationary policy of any kind. The Government and the Reichsbank have followed their lead with an even more emphatic statement.

## How About England ?

### V. How About ENGLAND ?

WHAT then is England going to do ? That is the question on everybody's lips at the moment, for our fate largely depends upon the answer. At what level will the pound be stabilised when the moment comes, and what is going to be England's fiscal policy ? Lastly, what are the consequences going to be for ourselves and the rest of the world ?

The present position, in so far as Germany is concerned, is clear. She can only come to the reasonable arrangement that she desires with her creditors if her foreign trade is expanding and her home market stable. The devaluation of the pound has, however, already hit her a heavy blow by increasing the competitive strength of British industry. Coal, iron and textiles, as well as other German industries, have all suffered. Most of our people believe that the effects of the devaluation may not last—internal prices may follow the external rate of the exchange. But this need not necessarily be so—wages, for instance, may not go up. But if British economic pressure on our trade continues and we are at the same time asked to make payments which are only possible while trade is expanding, the whole situation will be completely changed for Germany.

And there is another danger ahead. There is talk in England of a general tariff, at all events of new customs barriers of some kind or other. We have vividly in mind the effects of the Italian customs policy and the difficulties that Germany is experiencing with countries like Switzerland and Denmark, in consequence of her endeavour to restrict imports and exports. The outlook is certainly dark. Turn where one will there are rocks ahead. Petrol, nitrogen, the money market, the exchange and the customs, it is the same with everything. If all these fears are realised, it will not matter very much to us whether we

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have Dr. Brüning or Herr Hitler for a ruler, or whether France is willing to disarm or not.

One thing, however, may be taken for granted. The German people has not lost hope. The guidance and the "will to live," which in the last resort may prove the decisive factors, are not absent. Here in Germany we cannot get far enough away from the scene to see things in their true perspective. It seems to us to be all chaos, particularly in the political arena. But it may be that later on it will be recognised that to-day's troubles are the inevitable repercussions of a fundamental reconstruction which is destined to transform, not only the modern State and the political and economic ideas to which it owes its present form, but, what is far more important, the men and women on whom the task has fallen of grappling with this tremendous problem.

Germany.

November 1931.

## THE MANCHURIAN CRISIS

### CHRONICLE OF EVENTS—SEPTEMBER 19 TO OCTOBER 19

**A**N attempt is here made to extract from a welter of partisan and unverifiable reports an accurate chronicle of the development of the Sino-Japanese crisis dating from the Japanese occupation of Mukden on the night of September 18-19, up to October 19.\*

Feeling against China was running very high in Tokyo during August and early September. A series of incidents occurred between Chinese and Japanese subjects in China during the summer, and early in September the Japanese press was urging a "strong" policy upon the Government and pronouncing that no less than three hundred "points" were at issue between Japan and China. Throughout this period feeling in Japan was exacerbated by a newspaper campaign in connection with the case of Captain Nakamura, who, according to Japanese military leaders in Manchuria, was murdered last June by Chinese soldiers on the borders of Manchuria and Mongolia. A meeting of the Japanese Cabinet was called on September 8 to consider the situation. At this meeting the War Minister denounced the "procrastination" of the Chinese Government in dealing with the case of Captain Nakamura. An investigation was at the time being carried out by the Chinese authorities at Mukden, and the Japanese Cabinet decided to await the conclusion of this inquiry before taking action. A resolution was passed to the effect that the military

\* A map showing the region affected will be found in the appendix.

## The Manchurian Crisis

and diplomatic authorities would act in concert "regarding what action is to be taken if the Chinese fail to show sincerity in promptly conducting the negotiations."

The Chinese view at this period was summed up by General Wan Fu-liu, the Governor of Heilungkiang, the northern province of Manchuria, who declared: "This so-called Nakamura affair is nothing but a pretext now being utilised by the Japanese for the realisation of their objective—penetration into Manchuria."

On September 9 the *Asahi* expressed the view in a leading article that the Japanese War Office was pressing "the security occupation of an important region in Manchuria or Mongolia."

On September 18 the Tokyo papers contained reports to the effect that General Jung Chun, chief of the staff of the Manchurian army, had informed the Japanese Consul, Mr. Morioka, that proof had been obtained that Captain Nakamura had been shot by Chinese troops on June 26, and that a detachment had been despatched to arrest the perpetrators of the outrage.

Late at night on September 18 Marshal Chang Hsueh-liang, at Peiping, received a telegram from Mukden stating that at ten o'clock Japanese soldiers opened fire upon the Chinese city, killing a number of Chinese troops, that the Chinese military camp, the arsenal and the Chinese city were under shell fire, and that the local Japanese civil authorities declared themselves powerless to control the situation. The message stated that the Chinese forces were not retaliating. Marshal Chang Hsueh-liang sent an urgent telegram in reply, ordering the Chinese troops to take no action against the Japanese. Japanese reports stated that a clash had occurred on the outskirts of Mukden between Chinese and Japanese troops after an attempt had been made by Chinese troops to destroy a portion of the South Manchuria Railway line. Later it was reported that the Japanese troops had occupied Mukden, no resistance having been offered by the Chinese.

## The Manchurian Crisis

By three o'clock on the morning of September 19 all telegraphic communication of a political character had ceased. The headquarters of the Japanese army in Kwantung were transferred to Mukden, the Commander-in-Chief, General Honjo, leaving Dairen at 3.40 on the morning of September 19, on a special troop train, with 800 infantrymen. At about 4.30 in the morning Japanese troops occupied Kwangchengtze, the important junction of the South Manchuria Railway, the Chinese Eastern Railway and the Kirin-Changchun Railway, and Japanese reinforcements moved up to various points along the South Manchuria Railway. A division in Korea was given orders to hold itself in readiness to proceed on special service to Manchuria. At Tokyo a hastily convened Cabinet meeting issued instructions to the civil and military authorities in Manchuria to do their utmost to localise the issue. Later in the morning Japanese troops occupied Newchwang and Kaopangtse. Early in the afternoon it was officially announced in Tokyo that "the destroyed section of the South Manchuria Railway had been repaired," and orders already issued by the Japanese War Office to troops in Korea to proceed to Mukden were cancelled.

Although a considerable number of Chinese soldiers were killed during the shelling of the Mukden arsenal, the rapid deployment of Japanese troops and the occupation of various points was accompanied by very few casualties on either side, the Japanese losses being negligible.

The Chinese Foreign Office lodged a formal protest with Mr. Shigemitsu, the Japanese Minister to China, and on September 20 Dr. C. T. Wang announced that the Chinese National Government was "greatly exercised over the situation caused by the unprovoked attack of Japanese troops on Mukden and other cities in the three eastern provinces." He said that the Chinese Government was preparing an appeal to the League of Nations and the signatories of the Kellogg Pact.

Japanese warships were despatched from Dairen to

## The Manchurian Crisis

Chinese ports on the north Shantung coast for the protection of Japanese nationals.

Feeling was running very high in Nanking, but the Government did its utmost to calm the people, and Mr. T. V. Soong, the Minister of Finance, played an heroic part in shaping and pressing this policy of moderation. The Chinese Government sent a second note to Japan.

On September 21 fighting continued in Manchuria, Japanese troops advancing towards Kirin, and Japanese nationals evacuated the province. In Harbin there was some display of anti-Japanese feeling among Soviet officials. In Tokyo there was a Cabinet crisis with regard to the despatch of additional troops to Manchuria. The news broke of the beginning of the peace movement between Canton and Nanking, which has been progressing through a web of rumours up to the time of writing (October 19), when a formal conference between the two parties is on the eve of taking place in Shanghai. A large demonstration of students was prevented by the authorities in Peiping. Meanwhile, in the evening, General Minami, the Japanese War Minister, sent reinforcements from Korea into Manchuria on his own initiative. Later Kirin was occupied by Japanese troops.

On September 22 Japanese troops were deploying towards Harbin. There was a second Cabinet crisis in Tokyo, Baron Shidehara, of the Foreign Office, and General Minami, of the War Office, taking opposite views with regard to further activities in Manchuria. The Japanese Government announced that the temporary military administrations in Mukden and other occupied towns in Manchuria were handing over to the Chinese civil authorities. In Nanking mass meetings of students took place urging a warlike policy upon the Government, and the Chinese Government took special precautionary measures to protect Japanese nationals in Nanking.

On September 23, all the Japanese evacuated Nanking. There was another mass meeting in the capital, the Chinese

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students demanding war against Japan. Meanwhile Japanese troops consolidated their position in the province of Kirin, and the Cabinet in Tokyo arranged for the despatch of troops to Harbin. In Nanking the first message from Geneva signed by Senor Lerroux produced a calming effect. China issued her third protest to Japan. In Hankow anti-Japanese demonstrations took place, but there was no damage to life or property.

During the next few days, various military incidents were reported from Manchuria. Wherever Chinese troops were concentrated, Japanese aeroplanes dropped bombs in order to ensure their dispersal. On September 25, the Japanese Government issued an official statement to the effect that troops were being withdrawn into the railway zone, and that small detachments only remained in Mukden and Kirin.

On September 26 there was a violent reaction in Nanking on the receipt of disappointing news from Geneva, and on September 28 a party of incensed Chinese students attacked Dr. C. T. Wang in the Foreign Office.

On September 30 Dr. C. T. Wang resigned his post as Foreign Minister. The position has not yet been filled, and the work is being shouldered for the most part by Mr. T. V. Soong. Meanwhile there are many rumours regarding independence movements in Manchuria and Mongolia, which are believed to be inspired by the local Japanese authorities. There have been accusations from China and denials from Japan, and it has not been possible to ascertain how far these movements have been serious or how far they have received Japanese support.

On October 2, Japanese aeroplanes reconnoitring dropped bombs upon Chinese troops stationed along the Harbin-Mukden Railway, and on October 4, four Japanese destroyers were ordered to proceed from Tokyo to Shanghai "owing to the increasing gravity of the anti-Japanese movement in the Yangtse Valley."

On October 8, Japanese aeroplanes dropped bombs upon

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Chinchow, which had been adopted, after the capture of Mukden, as the temporary headquarters of the Manchurian Government. Several Chinese were killed and the inhabitants of Chinchow were thrown into a panic. On the following day the Japanese Government explained the bombing of Chinchow on the grounds that the aeroplanes were first of all fired upon by Chinese troops. It was admitted that the Japanese aeroplanes dropped about seventy bombs, causing considerable damage.

On October 11 Mr. Shigemitsu, arriving in Nanking from Shanghai, presented a note from Japan to the Chinese Government protesting against the anti-Japanese agitation in various parts of China and warning the National Government that it must take responsibility for the consequences if the movement is permitted to continue. On October 13 Nanking replied, stressing particularly the fact that while the Chinese Government had done its utmost to control the growing indignation against Japan which had been increased by recent incidents, such as the bombing of Chinchow, it was impossible to prevent a refusal on the part of Chinese traders to handle Japanese goods. The Chinese Government declared that, in spite of Japan's provocative action, it would continue to give protection to the lives and property of Japanese nationals in China.

From now on the situation in Manchuria remained unchanged, and the centre of affairs, which had already shifted from Manchuria to the Yangtse Valley, appeared to shift once more to Geneva, where the League Council reassembled on October 13.

No attempt has been made to deal chronologically with the discussions of the Manchurian situation before the League Council or of the succession of notes and protests exchanged between Geneva and Nanking and Tokyo, or the part played by Washington. Every movement from Geneva, however slight, has been watched with intense interest in China. From the very commencement of the crisis on September 20, Chinese public opinion has been

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concentrated upon the League of Nations. The Nanking Government, making a tremendous and extraordinarily successful effort to prevent the outbreak of any anti-Japanese incidents, and to preserve a calm atmosphere, has emphasised to the utmost the fact that China, relying upon the moral rectitude of her case, has placed her complete faith in the power of the League of Nations to enforce a just settlement. Public opinion is inflamed or calmed by the news from Geneva, and it is not an unjustifiable supposition that a failure now on the part of the League of Nations to justify the expectations of China, would have very far-reaching results with regard to the attitude of the Chinese towards foreign interests generally. It would almost certainly precipitate the fall of the Nanking Government. It is unquestionably true that the Chinese Government has done all that could possibly be expected of any government to protect Japanese nationals and to prevent any aggravation of the situation.

The protests on the part of the Japanese Government against anti-Japanese activities have so far been supported by no definite examples that any such activities have occurred. There has been, on the other hand, considerable provocation on the part of the Japanese.

On the Japanese side, never has a case suffered so badly for want of presentation. Japan has essential interests in Manchuria protected by treaties with China. China has repeatedly infringed both the spirit and the letter of these treaties. One of the most important of the Japanese grievances was directed against the contemplated building in Chinese territory of a railway parallel with the South Manchuria Railway and a port to rob Dairen of its traffic. This proposal is believed to be a direct contravention on the part of China of a treaty, the terms of which have never been made public. But Japan has not yet tabled in any convincing form the basis of her case against China. Furthermore, it seems clear that the whole operation has represented a lamentable failure to co-operate between the

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Ministries of War and Foreign Affairs. The initial action having been taken on the night of September 18, the supplementary movements took place automatically in accordance with carefully planned strategic arrangements. From a military point of view, given that the first movement had been made, the further rapid deployment of troops and the prevention of any concentration of Chinese troops were necessary corollaries if a small force, strung out over a wide territory, was to be assured of protection for itself against potentially overwhelming forces at particular points.

The boycott of Japanese goods in the Yangtse Valley is well sustained. It appears to be very largely a spontaneous movement, and it does not seem to be conceivable that the policy, with which Japan was credited a week ago, and in accordance with which it was supposed that she intended to attempt to break the boycott by means of intimidation, could be successful. There have been no incidents in China involving the loss of life of Japanese nationals.

Shanghai.

October 20, 1931.

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### APPENDIX

#### *Map of the Region Affected*



Based on a map which appeared in *The Times*, October 10, 1931.

## INDIA AND THE ROUND TABLE CONFERENCE

AS on the last occasion, we write from India at an awkward moment. On the road before us—but just over the rim of the future, out of sight—lies a signpost by which our subsequent progress will be determined. Whither it will direct us it is at present\* impossible to foretell; and until we actually have it behind us we cannot be sure whether, in looking back over the events of the last three months, we are as yet in a position to see them in their proper perspective. And the signpost, this time, is a bigger one than that which lay before us in the last week of July, and points to destinations much more important and remote. When our last article was in course of preparation, the chief difficulty lay in estimating the future conduct of the Congress party; that is, in deciding whether an analysis of what had occurred since the previous March, when the Irwin-Gandhi settlement was reached, suggested that the Congress really intended to send representatives to the second Round Table Conference in London, and thus to fulfil what was, from the political, if not the administrative, point of view, the most important purpose for which the settlement was designed. On that occasion, we permitted ourselves the luxury of prophecy† which, in the event, proved justified, despite the fact that, a fortnight or so after our article was completed, both Mr. Gandhi and some other prospective delegates closely associated with him announced that they had definitely decided against

\* This article is dated November 1.

† See *THE ROUND TABLE*, No. 84, September 1931, p. 829.

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participating in the Conference. Possibly, within the next few weeks, the arguments we adduced in support of our forecast may prove to have been correct also. But, however that may be, the uncertainty now before us is of vastly greater scope than that provided by the intentions of a particular group of political leaders. The second Round Table Conference has now been in session for over seven weeks, and to the majority of competent observers in this country it appears to have revealed or created more difficulties than it has solved. No announcement of policy, other than that made by the Prime Minister on January 19 last, has up to the time of writing been forthcoming from the British side; and, with things as they are at present, it is hard to see how any announcement that does not consist largely of ambiguous and unsatisfactory generalities can be made. Nevertheless, as was pointed out in our last article, and as the British public, even now, is still liable to overlook, there is probably no country in the world to-day where so much of the idealism and mental energy of the educated classes is devoted to political matters as in India; and during the last two or three decades a large and increasing proportion of this section of the population—probably 80 or 90 per cent. would not be an over-estimate of their number nowadays—has been animated by an intense desire that their country's constitutional status should be in some way substantially improved. A full two years have now elapsed since the project of holding the Round Table Conference was first officially announced,\* and throughout that period it has presented itself to educated Indians as the only practical means, short of directly revolutionary activity, whereby any satisfactory measure of the political advancement they have so long and fervently desired can be obtained. Should it fail, or yield results so meagre

\* The day on which this article was completed was actually the second anniversary of Lord Irwin's famous statement on the subject; but rumours that some such plan was being devised had been current for months beforehand. Moreover, a conference of an approximately similar nature had been demanded on various occasions by nationalist leaders for several years.

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and remote as to be genuinely offensive to most members of the literate classes—we may discount, of course, in advance, the merely automatic protests which will inevitably be raised, for tactical reasons, whatever the outcome may be—the consequences would unquestionably be very serious and far-reaching. Within a fortnight from now some announcement by the Prime Minister, or the Secretary of State, of the intentions of the British Government concerning the Indian constitutional conundrum must apparently be made. Upon the nature of that announcement, and its reception in this country, will depend the politicians' conduct in the future, and the historian's interpretation of the past.

### I. MR. GANDHI'S REASONS FOR GOING TO LONDON

IN describing—within the limitations imposed by our inability to anticipate the results of the Conference—the more noteworthy events and movements of opinion during the last three months, it may seem unnecessary to devote much space to the subject of the workings of Mr. Gandhi's mind during the anxious weeks when he was deliberating whether to venture to London or not. The episode in itself now seems, from our present vantage ground, curiously isolated and remote; but a good deal lay behind it, and since its significance was perhaps at the time insufficiently appreciated in England, it is proposed to take it as a starting point. It is of course true that, ever since the plenary session of the Congress at Karachi ended during the last week in March, Mr. Gandhi had spent a great deal of his time in Gujerat, listening to and endeavouring to redress the imaginary or actual grievances of the peasants, a proceeding which, incidentally, now appears to have been somewhat misdirected, since had he, instead, carried out his professed intention of devoting all his energies to seeking a solution of the communal problem, the leaders of the various groups in London would possibly have been more

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accommodating to one another, and public exhibition of the disunity and mistrust that can exist between Indians might have been largely avoided. It is also true that Mr. Gandhi is himself of Gujarati origin, that his personal influence, great though it has been throughout the whole country, is most pronounced in his home province, and that the cultivators in the region concerning which the dispute arose, particularly those of the Bardoli *taluka*, have well repaid the attentions that the Congress leaders have lavished upon them in the past, and might reasonably think themselves entitled to claim special favours at their hands. But that these considerations alone explained Mr. Gandhi's conduct, whereby the participation of Congress in discussions affecting the political future of the whole of India was made solely dependent on the circumstances of a particular set of cultivators in Gujarat, none but the most ingenuous readers of Congress newspapers ever seriously believed. What really goes on in the mind of one who is at the same time an astute politician, a brilliant publicity expert, an honest and charming man, a humorist and a saint, is one of the major problems of our times, but we may tentatively put forward the following as constituting part of the explanation.

From the time when the Irwin-Gandhi settlement was reached, Mr. Gandhi, we would suggest, had never decided whether, if it came to the point, it would really be to the advantage, either of his party or of India, that Congress should be represented at the Conference. There would be serious risks to be faced whichever course was adopted ; and when the Working Committee decided that he should be the sole Congress representative, the problem, by being made personal, became even more acute and involved. It was conceivable that, extreme and unpalatable though the Congress demands would be, something approximating to them might actually be conceded at the Conference. The first session had progressed unexpectedly far, and Great Britain was in a "defeatist" and pessimistic mood,

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distracted by domestic difficulties. Were something really substantial obtained at the second session, the Congress would look ridiculous by having refused to participate, and the politicians who had attended the Conference would return to India with greatly enhanced prestige. Moreover, by abstaining, the Congress would expose itself to the frequently repeated taunt that it is incapable of being effective except in non-co-operation, and has no capacity for constructive statesmanship. Again, while the Conference was in progress, the Congress would have a difficult *rôle* to play, and might lose ground throughout the country; civil disobedience, it was agreed, could not be resumed for at least some months with much prospect of success; and the Congress therefore, if unrepresented at the Conference, could do little to attract attention to itself. But by sending Mr. Gandhi to London, and retaining in India plenty of leaders capable of keeping the organisation in good trim, the Congress would place itself in a strong position, both morally and strategically. Whatever happened, it could then assert that it had done its best to obtain a settlement of its claims by reasonable negotiation; and meanwhile sufficient time would have been gained to enable the civil disobedience movement to be resumed with less difficulty, and, should the Conference fail, with more justification.

As against all this, however, there were several weighty considerations suggesting that abstention would be the wiser course. When the Irwin-Gandhi settlement was reached, the prestige of Mr. Gandhi, and of the Congress as a whole, was at an unprecedentedly high level. But enthusiasm subsides quickly in India, and already, as the summer advanced, there were signs that interest in the Congress and its activities was flagging. In the past—and particularly during the fifteen months prior to the settlement—a good deal of Mr. Gandhi's influence and authority had been due to the almost mystical air of aloofness and implacability with which he and some other Congress leaders were surrounded. But once he committed himself to journeying

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to London, to negotiate with members of the British Government in company with a crowd of his own compatriots, he would descend nearer to the level of ordinary humanity, and lose something of the advantage which his intransigence and Mahatmaship had previously conferred upon him. And this was not all. Although the numerous other groups and interests which have been given representation at the Conference are very amorphous and ill-organised—the Congress being almost the only body in India which can be said to approximate in effectiveness to a political party as the term is understood in Great Britain or the Dominions—many of the delegates who have been chosen to speak for them are extremely able and practical men, have spent years in public life, and in some instances have had extensive administrative experience. The question must surely have arisen in Mr. Gandhi's mind, as it certainly did elsewhere, whether, when sitting in deliberation with compatriots of this intellectual calibre, and with members of the British delegation, his own personal reputation would not suffer—despite his legal training and effectiveness as a speaker. Then, again, there were certain skeletons in the Congress cupboard which would probably have to be disclosed at the Conference, but which in India might still be safely kept in darkness. The question of federation, for example. The Congress press, when the first Conference was in progress, seemed jubilant over the *volte face* of the Princes, applauding their action as a great patriotic move which would advance the nationalist cause. But actually the declaration of the States' representatives in favour of federalism took most Congressmen by surprise, and disorganised their political philosophy. For years they had thought only in terms of British India, and the more optimistic among them had believed that, by capturing the existing central Government, and over-riding such opposition as the Moslems, Liberals and other indigenous opponents might be able to muster, they would in time be able

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to absorb the States into British India by a process of mediatisation and establish a united Indian republic. The ultimate implications of the Princes' action were therefore, despite protestations to the contrary, displeasing to Congressmen ; and although Mr. Gandhi's public utterances on the subject had been very discreet, he could not be expected, when it came to the point, to agree that the new Federal Government should be established on the Australian model, that is that it should be little more than the "agent" of the various Provinces and States, or that the Princes should have substantially more seats reserved for them in the Legislature than the population of their territories would normally warrant, or that the politicians of British India should be denied all right of interference in the States' internal affairs. Further, there was the communal problem to be faced, and the position of the Congress with regard to this, at the time when Mr. Gandhi had to make his decision, was embarrassing. The Congress press, of course, has for years sedulously fostered the idea that communal antagonism is not a natural growth, arising out of long-standing social and religious differences, and complicated by the advent of democracy, but a canker in the body politic artificially created by the British for their own purposes ; Congress leaders have frequently claimed that, were they free to devote their undivided energies to this problem, they could solve it in no time. Yet, instead of concentrating his attention on the communal issue, Mr. Gandhi, as we have indicated, had spent the larger part of the period available since his triumph at Karachi in investigating agrarian grievances in Gujerat, and such communal negotiations as there had been\* had been so entirely fruitless that, shortly before he was due to leave for London, the Congress Working Committee had thrown up the sponge and, by definitely plumping for joint electorates, had antagonised the bulk of Moslem opinion in this country. Finally, it was to be anticipated that, if Mr. Gandhi went

\* See *THE ROUND TABLE*, No. 84, September 1931, p. 825.

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to London, his reception by some of the other delegates would be rendered somewhat awkward by the claim, so unremittingly made on his behalf by his admirers, that the Mahatma represented the united voice of an Indian nation, and that no other Indian present at the Conference would have a right to speak.

There is good reason to suppose, therefore, that the Gujerat business really had very little to do with Mr. Gandhi's hesitation about going to London; and in this analysis of supplementary reasons it is possible that there will be found the explanation of much that has subsequently happened at the Conference. No doubt Mr. Gandhi was perfectly sincere in the concern that he evinced for the Gujerat peasants, though it may be pointed out that, in so far as mere impoverishment consequent upon the economic depression and the civil disobedience movement was concerned, he could have found much harder cases elsewhere. No doubt also he was to some extent misled by Mr. Vallabhai Patel, who, it would seem, has always been averse to the Congress participating in the Conference, and who has much greater local knowledge than Mr. Gandhi, into supposing that the condition of the peasants, and the conduct of the district authorities, gave more grounds for dissatisfaction than was actually the case. But the real reasons for his agitation were certainly more substantial, and the state of affairs in Gujerat seems to have been selected only as a convenient means of bringing them to a head. If the Government, in order to secure the representation of the Congress in London, could be induced to concede his demands, constitute a committee of enquiry, and perhaps even admit the principle that the Congress was entitled to act as an intermediary between the administrative officers and the people, Mr. Gandhi could leave India with the assurance that the enormous prestige which he had enjoyed at Karachi, but which had subsequently shown signs of waning, had actually been enhanced. The Government, however, acted with commendable caution;

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the Congress "charge sheet" was promptly and effectively answered ; time was allowed to elapse without decisions being reached ; a detailed schedule of breaches of the settlement on the part of the Congress, which it was believed that the authorities had ready for publication in certain eventualities, was not released ; and in the end Mr. Gandhi suddenly pocketed his scruples and departed for London without having obtained more than an insignificant fraction of what he had demanded.

### II. THE REACTION IN INDIA TO THE CONFERENCE PROCEEDINGS

WE must now briefly indicate how the negotiations in London since the Conference actually began have affected the state of opinion in India. There is no need to deal with the subject chronologically, since the proceedings have been better known to the British than to the Indian public, and in any case by the time these words are read, the significance of the detailed day-to-day events will have been interpreted in terms of the final result, which is as yet unknown to us. A few general impressions must therefore suffice. Firstly, then—since we have been dealing with the topic hitherto—there are the reactions to Mr. Gandhi's activities. For weeks after his arrival in England, and even during the voyage, the Congress press was turgid with accounts of every detail of his new existence, and strenuous endeavours were made to sustain the belief that the Mahatma's presence in London would work a miracle. "Gandhiji's conquest of Lancashire" was jubilantly announced ; the special traffic arrangements made during his passage from the East End to St. James's Palace were carefully noted, as indicating his peculiar status ; great significance was attached to the fact that, in first attending the Conference, he was given a seat next to Lord Sankey ; and crowds were reported as cheering him,

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just as in India, wherever he appeared. But this excited interest could not be maintained for long ; the patent failure of the Mahatma to advance the Conference proceedings by miraculous or other means, and particularly his inability to settle the communal problem, caused steadily increasing disillusionment, and at present it would be true to say that Mr. Gandhi's stock in this country is lower than it has been since 1929. This is in many respects regrettable. For should he desire to revive the reverence and enthusiasm for himself, there is no doubt that he could do so, at any rate for a while, by issuing orders for a resumption of civil disobedience ; and the reports received of the speech he made yesterday to the Commonwealth of India League would seem to indicate that he contemplates action of this kind. On the other hand, should he decide, on returning to India, to shut himself up in his *ashram* and eschew politics again, the results might be equally unfortunate, since those on whom his mantle might descend would find it hard to resist the temptation to acquire prestige by initiating some fresh subversive movement ; and no one believes that any of the possible successors to Mr. Gandhi would be able—and some would not wish—to keep the movement even nominally "non-violent." Before we finally leave this topic, the attitude of the Europeans in India to the Mahatma's activities in England is worth commenting on. Some, particularly the more "race-conscious," exhibited signs of annoyance and perturbation at the unexpectedly warm reception he obtained, and fears were expressed that the ignorant and impulsive British public might be deluded into the belief that he is what he claims to be, the spokesman of a united Indian nation. To others, however—as it also did to practically every educated Indian—it gave genuine pleasure, as illustrating the natural hospitality and large-heartedness of their race ; and had Mr. Gandhi, as was anticipated in certain quarters, been subjected to insult, particularly in Lancashire, the consequences here would certainly have been unpleasant.

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The settled pessimism which now obtains in Congress circles concerning the outcome of the Conference is largely due to disappointment over the achievements of their leader ; and in a section of the press, insinuations are becoming daily more frequent that the Mahatma has been outwitted by the subtleties and anti-Indian machinations of British politicians. Acute depression also prevails in almost every other school of political thought, the Liberals being particularly downcast. On all sides, and amongst responsible far-seeing men, one hears it argued that since, apparently, no workable constitution satisfactory to nationalist sentiment can be obtained for a number of years, India must seek relief for the malaise she suffers from in the same way as other countries similarly afflicted have done in the past, that is, through drastic internal readjustments involving bloodshed. Only by surgical methods, it is suggested, can the agonising pangs caused by the birth of so immense a nation be tolerably shortened. There is widespread recognition, amongst intelligent Indians, that no one can reasonably be blamed for this ; that the necessity arises naturally from the complexity of the disease. But this does not alter the gist of the argument ; and it is also generally held that the second session of the Conference, which is likely to be the deciding factor, has been attended by singular misfortunes from the outset. The first session achieved some surprising results. By the unexpected decision of the Princes in favour of federation, the whole nature of the constitutional problem was altered, and responsibility at the centre, which has so long been the unattainable goal of nationalist aspirations, was suddenly brought within reach ; the session also created an extremely valuable "atmosphere." On the other hand, the rapidity of the advance was somewhat misleading, since, except for the question of provincial autonomy,\* all the important decisions made were of a provisional nature and not

\* Also recommended in the Report of the Simon Commission.

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elaborately worked out. The second session, therefore, was not only exposed to all the disadvantages from which a "sequel" ordinarily suffers, but was also required to fill in, in a painstaking practical manner, the details of a sketch whose outlines had already been drawn, and in which no exciting modifications were likely to be made. Meanwhile, in India, between the first and second sessions of the Conference, the situation had become a good deal more confused. Communal relations had markedly deteriorated, not only owing to the breakdown of the negotiations between the leaders of the orthodox and nationalist Moslem groups, but also to an increase of friction between Hindus and Moslems in their ordinary day-to-day relations. Memories of Cawnpore were no doubt partly responsible for the latter, and also the riots in Kashmir, whose implications were far more important than people in England appeared to appreciate. In addition, the attitude of some of the Princes towards the prospects of federation was becoming noticeably hesitant.

Thus when the first batch of delegates left for London the political atmosphere here was already murky, and what has happened since has only increased the prevailing gloom. Despite optimistic declarations by Lord Sankey and others, the progress made as yet towards solving the four major questions left open by the first Conference—namely, communal relations, the terms on which the Princes would consent to federate with British India, the nature of the "safeguards" to be provided under the new constitution, particularly with regard to the army and finance, and the protection to be afforded to British trading interests—seems to Indian observers to have been infinitesimal. In the extremist press the deplorable failure of the negotiations for a communal settlement is generally ascribed to British intrigue, the contention being that the delegates were intentionally selected in such a way as to render agreement between them impossible. Elsewhere, however, it is recognised that, while political organisations

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in India remain in such a rudimentary state, a considerable number of those invited to attend a conference such as this must inevitably be identified with some extreme point of view. But it was hoped that, when deliberating together in a foreign country, beyond the reach of their more vociferous supporters, Indians of all schools of thought would be able to compose their domestic differences ; that they have, nevertheless, failed to do so has caused widespread disappointment, and few observers in this country believe that a real communal settlement can now be effected here for several years, particularly now that the Depressed Classes, Anglo-Indians, Indian Christians and others have started claiming special representation in the Legislatures on the same grounds as the Moslems and Sikhs. The hesitations and reservations of certain Princes have also given rise to alarm. Some of the major rulers whose activities were most conspicuous at the first Conference have not journeyed to England at all, and the Maharajah of Bikaner, who appears, more than any other member of his order, to have been responsible for the attitude that the Princes adopted last year, is now returning home. Significance is also attached to the fact that the press messages sent through concerning the course of events in London have been noticeably less voluminous and informative than on the previous occasion. As a whole, the proceedings seem to have been entirely overshadowed by the political crisis in England ; and the appointment of a member of the Conservative party as Secretary of State, followed by the staggering success of the Conservatives at the polls, is interpreted as being of ill omen for India.

The prevailing view here at present regarding the outcome of the proceedings in London is therefore approximately as follows, though it may, of course, be falsified by the events of the next fortnight. The Conference, it is believed, will in two senses prove a failure ; that is, it will reach no final conclusions on a number of the most

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controversial points at issue, and such provisional decisions as are made will fall short of those demanded by the bulk of nationalist opinion. The British Government, it is assumed, will have to impose an arbitrary settlement in certain matters, particularly as regards the communal difficulty, and then proceed to draft a Bill for presentation to Parliament, incorporating therein such features as the Conference has been able to agree upon. Possibly certain eminent Indians will be asked to assist the Parliamentary Committee in its work, but no Congressman will be among them. When, or before, the Bill is passed, it will be vociferously repudiated by large sections of political opinion here, and the resultant state of affairs will be not unlike that which existed after the introduction of the Montagu-Chelmsford reforms. Many nationalist politicians now appear to consider that an imposed settlement would be a positive benefit to them. Under any imaginable new constitution, they must surely obtain at least a little more control over the direction of their country's destiny than they have under the existing constitution, and if any feature of the machinery is of purely British manufacture, it will enable them to restore an appearance of unity among themselves, by denouncing on patriotic grounds what many, no doubt, will subsequently be willing to make quiet use of. But the Congress certainly will be anxious, and perhaps able to do more than this. Recovery from the effects of the last civil disobedience movement is still far from complete, and the general economic depression, despite the slight improvement in trade caused by the depreciated currency, remains intense. The country, therefore, is in a very abnormal state. Were the Congress leaders to decide, as a protest against the conclusions reached at the Round Table Conference, to resume civil disobedience, the consequences would be extremely serious, and might possibly lead direct to that general breakdown of the social and political structure which many thoughtful observers believe to be ultimately inevitable.

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### III. THE FINANCIAL CRISIS AND OTHER MATTERS

FROM the purely administrative point of view, the three months that have elapsed since our last article was written have not been very eventful. Riots have been few in number, the most noteworthy having been the disorders in Chittagong on August 31, consequent upon the murder of a Moslem police officer, and the renewed disturbances in Kashmir on September 22 and 23; both were of the communal type. Agrarian unrest continues, particularly in the United Provinces and Gujerat, but does not appear to have become worse. In Burma, murders, dacoities, and affrays between the forces of the Government and wandering rebel bands are still reported almost daily, and no one in Delhi appears to pay much attention to them, or to know how a revolt which has now been in progress for over ten months can be suppressed. At the end of July, when our last article was in course of preparation, there had been a sudden revival of terrorist outrages—the attempt on the life of Sir Ernest Hotson, the stabbing of two British officers in a railway train, and the murder of Mr. Garlick having occurred within a few days of one another. Subsequently there was a lull, the attacks on the Commissioner of Dacca at Tangail on August 21, and on Khan Bahadur Ahsanullah at Chittagong, on August 30, having been the only noteworthy crimes of this nature between the end of July and the end of October; but within the last week there have been two further outrages of the worst type, the attempts on the life of Mr. Durno, in Dacca, and Mr. Villiers, in Calcutta, having been almost simultaneous. In an endeavour to deal with the situation in Bengal, the Viceroy has been compelled to promulgate an Ordinance extending the scope of the Bengal Criminal Law Amendment Act; but none but the most optimistic believe that measures such

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as this can stamp out terrorist crime altogether. As regards the Congress, throughout the three months the various leaders, although they have kept quiet for fear of embarrassing Mr. Gandhi, have been by no means inactive, and there is reason to suppose that their preparations for a renewal of the conflict with the Government have made considerable progress. The members of the Working Committee might, of course, if they decided on the resumption of civil disobedience this year, find it difficult to arouse the same desire for gaol life among their followers as on the last occasion ; moreover, funds to finance an extensive campaign must still be short. But it is advisable to remember that the success of the 1930 movement took most authorities here by surprise ; that loyalists have been greatly discouraged by the events of the last few years ; that the general economic depression and the imposition of fresh taxation have rendered the Government unpopular both among the peasants and the middle classes ; and that many of the influential *zemindars* have been estranged by the policy adopted with regard to the remission of rents. While, therefore, there might be less active enthusiasm for civil disobedience, were it renewed within the next few months, there is nevertheless a good deal of latent hostility to Government seeking to find a vent.

As this article has already extended beyond the limits it was intended to fill, the concluding paragraphs, describing the effects which the financial crisis of September had on the movements of Indian political thought must perforce be condensed. In any case, at the moment, an analysis can be no more than provisional, since the emergency session of the Legislature, convened for the purpose of passing the new Finance Bill, is not due to meet until three days hence. At the time the crisis arose in India, as in England, it had been believed for weeks beforehand, that something of the kind was inevitable—the Simla session of the Legislature was in progress, and opinion was therefore able to consolidate fairly rapidly. When the news was

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received on September 21 that Great Britain had abandoned the gold standard, and that the Viceroy had forthwith issued an Ordinance providing for similar action in India, but without establishing any relation between the value of the pound and the rupee, there was of course some consternation, but the general view was that the Government's action would prove popular. Ever since the rupee was stabilised at 1s. 6d. by Sir Basil Blackett in 1927, such nationalist leaders as were concerned with financial affairs had protested that so high a rate of exchange was contrary to the country's interests, and during 1930, there was reason to believe that a deliberate export of capital was being organised, particularly in Bombay, by individuals who stood to gain substantial profits by forcing the Government to depreciate the currency. The implications of the Ordinance therefore, although surprising, were by no means unsatisfactory; but when it was promptly followed by the Secretary of State's announcement that the rupee would be linked to sterling, instead of being allowed to find its own level, intense resentment was aroused. Into the technical details of the arguments used we need not enter. For it was clear that, even if India stood to lose in one way, she certainly would gain greatly by the fact that the cost of her sterling commitments would not be increased by the rupee depreciating *versus* the pound; moreover, the undertaking of the British Government to render financial assistance to India in certain eventualities was at the same time renewed. Actually, the indignation evoked by the decision taken in Whitehall was based far more on constitutional than on financial considerations. Not only had no reference to a matter closely affecting India's interests been made to the Indian Legislature, which was at the moment in session, but there were also grounds for supposing that arrangements provisionally made by the Viceroy-in-Council had had to be modified as a result of peremptory orders issued from the India Office. Such an incident naturally caused serious offence to Indian

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nationalists ; there was, moreover, a good deal of sympathy with them in European circles, since the conviction is growing that it is impossible to rule a country in two places at once, and that the intervention of Whitehall in all important matters of policy is tending to paralyse the administration at a time when strong government of some kind is imperative. Comments of this kind were also prevalent during the course of the negotiations between the Government and Mr. Gandhi in August. Had all three Indian members of the Viceroy's Council, and possibly the Finance Member as well, tendered their resignations over the currency question, it would have occasioned little surprise.

The emergency budget which Sir George Schuster shortly afterwards presented to the Legislature, and which is to come up for detailed discussion during the special session a few days hence, is certainly a drastic one, and it is difficult to predict its fate. On the whole, however, the prospects seem favourable. Substantial economies by way of retrenchment are to be effected, and the fresh taxation proposed is fairly evenly distributed ; and since the depreciation of the currency has given some stimulus to trade, the sacrifices required may, perhaps, be more easy to bear than appeared likely in September. But if it becomes clear, during the course of the next week or two, that civil disobedience is to be resumed, all estimates of the future course of events, both as regards finance and administration in general, will have to be revised.

India.

November 1, 1931.

## GREAT BRITAIN

### I. THE GENERAL ELECTION

THREE months ago a Labour Government was in office, supported in the House of Commons by 280 Labour members, over 50 Liberals and a few Independents. To-day a National Government is in power, supported by 473 Conservatives, 68 Liberals divided into two roughly equal groups, 13 Labour members and 2 Independents. The official Labour party can count on only 52 members in the House of Commons, and this handful, together with the Lloyd George family party of four, form the Opposition. Such is the result of a series of events culminating in the most sensational general election in British political history.

The story of these events, though dramatic, can be told almost uncontroversially, thanks to the volume of the revelations made by the participants during the election. The last issue of *THE ROUND TABLE*\* left the Labour Government struggling with the necessity of meeting enormous deficits in prospect for this year's and next year's budgets. It is now known that this deficit had been estimated at nearly £75,000,000 for this year and at £170,000,000 for next year. Moreover, these deficits, the growing world crisis and the ever mounting costs of the "dole" had profoundly shaken the confidence of the world in the value of sterling, and, besides this, foreign countries, also in difficulties, had been withdrawing their deposits from London

\* See *THE ROUND TABLE*, No. 84, September 1931, p. 836.

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so as to increase their own liquidity. Concurrently with their task of balancing the budget, the Government also felt constrained to obtain credits in foreign currencies in order to prevent the depreciation of the pound—an original credit of £50,000,000 obtained by the Bank of England for this purpose having been almost used up.

The whole Labour Cabinet realised that the balancing of the budget was an essential preliminary to the restoration of confidence in sterling. They were substantially agreed also that the budget must be balanced on the principle of "equality of sacrifice," and part of the deficit would have to be met by economies and the rest by increased taxation. In their earlier discussions considerable progress was made in defining the details of a plan, which in its final form took shape in a "provisional" agreement to effect economies totalling £56,000,000 a year at the expense of the defence services, the civil service, the teachers, the police, and the unemployed. The agreement was "provisional" in the sense that it awaited, for confirmation, the details of the new taxation by which economy was to be supplemented. Since these details of new taxation followed in the main the principles laid down by Mr. William Graham,\* it would appear that at one time the Labour Cabinet were ready to present to Parliament a scheme practically identical in principle and largely identical in detail with that subsequently presented by the National Government. Indeed, Mr. Baldwin, who was consulted as leader of the Conservative Opposition, has since stated that he believed that the Labour Government would face their task, and that he had promised them help in facing it on the lines foreshadowed to him. But when the plan was presented to the Trades Union Council, that body rejected it. It would, Mr. Henderson considered, be no use going on unless the Government carried their own people with them in the economies that they proposed. The

\* See an article by Mr. William Graham in the *Daily Herald* of September 3 last.

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Cabinet became sharply divided and, after toying with the idea of a revenue tariff, finally came to an open rupture. The breaking point was the proposal to reduce the rate of unemployment benefit by 10 per cent.,\* though it is doubtful whether unanimity would ever have been possible in face of the hostility of the Trades Union Council. This reduction was in itself less than other forms of retrenchment at the expense of the unemployed already agreed upon, and Mr. Alexander, one of the dissentient Ministers, had reported that an adequate cut in unemployment benefit as well as in the public services all round was essential to the acceptance of cuts in naval pay. Moreover, it had been found impossible to procure the required foreign credits without increasing the amount of the proposed economies. Nevertheless all the members of the Cabinet except the Prime Minister, Mr. Snowden, Mr. Thomas, Lord Sankey, and Lord Amulree resigned.

Mr. MacDonald might easily have given up also, but at the request of the King he decided to try to form a National Administration. Mr. Baldwin, whatever may have been his ambitions for himself or his party, at once agreed to support him, and Sir Herbert Samuel, who was leader of the Liberal party during the illness of Mr. Lloyd George, also consented to co-operate. The new Government was formed for the particular purpose of balancing the budget and restoring confidence in the national credit.† On the completion of its task it was understood that Parliament would be dissolved as soon as circumstances permitted. A small Cabinet of ten members was formed. Parliament was at once summoned, and on September 10 Mr. Snowden presented a second budget which practically enacted the plan from which his former colleagues had broken away. Besides the economies already detailed — totalling

\* The proposal involved a sum of £12,800,000.

† See Mr. Baldwin's statement on August 24. The official announcement stated that "the specific object for which the Government is being formed is to deal with the national emergency . . . when that purpose is achieved the political parties will resume their respective positions."

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£70,000,000 in a full year—Mr. Snowden proposed to raise (in a full year) £57,500,000 by increases in direct taxation, £24,000,000 by indirect taxation, mainly confined to beer, tobacco and petrol, and £20,000,000 by reducing the Sinking Funds to the actual contractual obligations contained in the prospectus of the various Government loans. This plan balanced on strictly orthodox lines the budgets of 1931-32 and 1932-33.

But the nation was by no means out of its difficulties. It would, indeed, have been foolishly sanguine to suppose that a balanced budget was a sufficient buttress for sterling. Other unfavourable factors persisted. The value of a currency depends just like the value of everything else upon the laws of demand and supply, and the demand for sterling continued to be less than the amount offered. One reason was that the balance of trade was unfavourable to this country, and on that account alone sales of sterling probably exceeded purchases by nearer £2,000,000 than £1,000,000 a week. A second reason was the continuance of financial panic in foreign money centres, which induced foreigners holding sterling securities or balances to realise them, and convert the proceeds into foreign currencies. A third reason was the lack of unanimity. The opposition of the Labour party gave the world the impression that the British nation was indifferent to its danger or at least not united in facing it. Finally, certain incidents in the Atlantic fleet at Invergordon were interpreted abroad as the possible beginning of a general naval mutiny and the prelude to a revolution against the National Government. The part that sailors had played in starting revolutions both in Germany and in Russia was recalled. What actually happened in this case was that the proposals for reductions in naval pay were promulgated without sufficient explanation or sufficient inquiry into the results upon individuals. A certain section of the Atlantic fleet refused duty. There is not the slightest reason to minimise the serious nature of this action, which was

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indefensible and deeply resented, as subsequent events showed, by the navy generally. But when the steps, which might well have been taken before the trouble, had been taken, and the Atlantic fleet had been sent to its home ports with the promise of inquiry into cases of hardship, no further difficulty was experienced. Meanwhile, however, the damage had been done. Throughout a critical week, the sales of sterling increased in volume and most of the credits of £80,000,000 obtained by the Government for its support were exhausted. On September 21, Parliament sanctioned the suspension of payments in gold, which had been the guarantee of the gold value of sterling, and the pound was left without artificial defence.

A new situation was thus created. The National Government had failed in its technical object of maintaining the gold standard, but it had balanced the budget and succeeded in achieving its material object of preventing a currency collapse which would have been reflected in soaring prices. The pound bought less abroad, but it still bought practically as much at home as ever it did. There was no internal inflation such as would start this country on the slippery slope of printing money. Nevertheless, no one could tell how long this relatively favourable situation would continue. The Government took immediate powers to correct adverse monetary influences and to check profiteering; but, after all, the powers of a Government in these directions are limited. It became clear at any rate that a National Government's task was by no means ended with the balancing of the budget. At this point controversial issues, so far dropped by mutual consent, began to appear. Clearly if the country was to be preserved from internal inflation, the trading accounts must be balanced. But how was this to be brought about? All sorts of suggestions were made; an international conference; the prohibition of certain imports; some maintained that the pound, no longer tied to gold, should be left to find its own level. This, it was said, would automatically

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rectify the balance of trade, and if the pound were kept, as it could be, between two extremes, there would be no risk of prices rising sufficiently to render an increase in wages necessary. Lastly—a suggestion which, unlike the others, raised a first-class party question—there were tariffs.

The immediate thing to be decided was whether the Government should go to the country. Some, notably Sir Herbert Samuel, the Home Secretary, and many of the Liberals, were for the existing Government continuing its task. The bulk of the Government's supporters, however, including the whole Conservative party, were for an immediate election. Foreign confidence, it was contended, could only be restored by a strong government with a fresh mandate, and such a mandate was in any case necessary, for the existing Government had only had an uncertain majority of 65, which would preclude it from taking highly contentious steps, even if it felt them to be essential to meet the needs of the situation. Besides, if the Government waited, their chances of winning an election later on might, as one of their opponents, Mr. Graham, had pointed out, be less rosy. They would certainly have to do a number of unpopular things, and a full five years term would not be too long for their purpose. Those opposed to an election considered it both unnecessary and risky; unnecessary because the Government had still two years to run, and the national emergency, their official *raison d'être*, still persisted. The people's support could, they claimed, be assumed. The Government, moreover, had not as yet an agreed policy, and an election would, it was contended, only confuse people. As regards risk, it was felt—an anxiety that was largely shared by the City—that the uncertainty, which must prevail during an election campaign, would probably still further depress trade, and with it the pound. It would, at all events, distract Ministers whose entire energies were required for their task. After all, too, the result of the election might not be so satisfactory as was hoped. It was also felt that

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Labour, nonplussed by the situation, might, if only to save its face, commit itself to an extreme programme, and in any case bitterness would result from the election, and the chances of bringing every party into the National fold be lessened. In some quarters the Conservatives were accused of forcing an election for party purposes. But it is unnecessary to pursue this matter further. In the end, an immediate general election was decided upon, the Liberal supporters of the Government acquiescing, in spite of Mr. Lloyd George's disapproval.

The question of the form of the appeal also gave rise to disagreement, but after a fortnight spent in search of a formula which would reconcile all differences, the Prime Minister again cut the knot. He decided to go to the country on a simple national appeal—a doctor's mandate, as he called it. He would ask to be granted a free hand to use any and every method, including tariffs, expansion of exports and contraction of imports, commercial treaties, mutual economic arrangements with the Dominions or any other expedient which might be found useful to save the nation from a currency collapse, and he issued a manifesto in this sense, upon which the political parties ranged themselves in a new order.

The dividing line at the election lay between those who believed that the danger to the currency was the vital consideration of the hour, and those who, either denied the existence of such a danger, or thought it less formidable than some other danger. To this second category belonged the official Labour party, who fought the election on the contention that the whole national emergency was a capitalist manœuvre—the so-called "bankers' ramp"—and on a programme the main planks in which were the reversal of the cuts in the services and unemployment pay, the conversion of privately owned industries into public utility corporations, the control by public boards of imports, exports and investments, the removal of the control of the banks from private hands, the nationalisation

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of the land, and free trade. Mr. Lloyd George had supported the formation of the first National Government but was throughout strongly against an election. He now declared that it was a Tory ramp—a plot by the Conservative party to obtain power to impose a general system of protective tariffs under cover of a national appeal, and he advised Liberals to vote for Labour rather than for the Government. The Liberal party, however, ranged itself behind the Prime Minister, though it was divided into two sections—one led by Sir John Simon, the nucleus of which was formed by those who had disapproved of the former policy of supporting the Labour Government, and the other by Sir Herbert Samuel, which shared Mr. Lloyd George's fear of tariffs, but not to the extent of refusing to participate in the Prime Minister's appeal. The Prime Minister himself led a small band of candidates described as "National Labour," whose success was an astonishing feature even in so astonishing an election. Mr. Baldwin brought to the National cause the whole of the Conservative party. He himself showed moderation and loyalty to the Prime Minister during the contest, defining the issue as the defence of the pound—tariffs, in his view, were useful, but subordinate to that end. The bulk of the party followed this line, but certain members, of whom the most prominent were Lord Beaverbrook and Mr. Amery, did their best to make the election a fiscal dog-fight. How mistaken they were appears from the fact that the candidates whom they supported were relatively the least successful of those championing the National cause. Had the advice of the extreme protectionists been taken, there would have been many three-cornered fights, but this danger was in fact generally avoided. The result was an unprecedented triumph for the National Government. Every one of the Ministers in the late Labour Cabinet who had resigned, except Mr. Lansbury, was defeated, and of the junior Ministers only Sir Stafford Cripps, Major Attlee and seven others were returned. The greatest personal

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triumph was the victory of the Prime Minister in his old constituency, but the reasons for his victory prevailed generally all over the country. It is widely believed that the bulk of the women's vote was cast for National candidates. The most telling arguments for the National cause—advanced by Mr. Snowden in a series of devastating addresses—were that the Labour leaders had run away from their duty; that their victory would mean irretrievable ruin, endangering all savings (Post Office savings among the rest); that the one issue was whether these men should be returned or a strong National Government determined, as it had already shown, to restore confidence at home and abroad. The municipal elections which followed a few days later went much the same way. No doubt the National candidates benefited as much from the mistakes of their opponents as from their own merits. Mr. Henderson and his colleagues protested too much, always a dangerous line. Moreover they took up an almost impossible position in fighting economies of which they had recently so largely approved, and it was difficult to unfurl the banner of free trade after their recent flirtation with a tariff. Above all they had, it was generally felt, resigned in consequence of the attitude of an outside body, the Trades Union Council, towards their proposed economies, and, on top of everything, it was a mistake to offer people shouting for help in a bog a programme better suited for the millennium.

During the campaign the forebodings about the effect on the currency were not borne out. It remained remarkably steady right up to the declaration of the result. This was, no doubt, partly due to the growth of confidence in the victory of the National Government, but it was also largely a consequence of the troubles of other countries, especially the American banking crisis, which discouraged people from selling sterling to buy dollars.

What is to happen next? Labour has received a stunning blow. With a representation of only 52 members it is

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reduced to comparative impotence in the House of Commons—some indeed think that it will never completely recover, and as it is there are divisions in its ranks. The party whip has been refused to Mr. Maxton and the four of his friends who were returned at the election, and the chairman of the Independent Labour party has suggested that a breach with his group may not be far off. There is talk too of a feeling that the unions might be better off if they looked after their own affairs. It must be borne in mind, however, that the very fact that the doors of Parliament are shut upon the Labour leaders is likely to lead to greater activity in the industrial sphere, and even in the political one, their party polled nearly 7 million votes out of close upon 21½ million. History shows, too, that big battalions have a way of melting. The National majority is the largest on record, but it is by no means the most homogeneous, and strength has dangers of its own. One result of the election has been to force Labour to reconsider its whole policy. A resolution was recently passed at a joint meeting of the Labour party and the Trades Union Council in favour of closer collaboration between the political and industrial wings in framing political policy, a course which, as *The Times* has pointed out, is easier to follow in opposition than in office. But the resolution evades the basic question ; is the Labour party to remain primarily a trade union party or to become a national party ? That this is a live question is clear from an article by Mr. Lees-Smith, Minister of Education in the late Labour Government.\* In his view, the Labour party “ must descend from poetry to prose.”

Its policy must appeal to disinterested men of good will in all classes, for it is now clear that a Government with a majority will not be returned in this country on a pure working-class vote. It has hitherto confined itself to the direct redistribution of income by spending money on pensions, education, housing and social services at one end and increasing the taxation of wealth at the other end. This is the line of least resistance, but it is the acceptance of capitalism rather than socialism and the limits to which it can be followed

\* See *The Spectator*, November 7, 1931.

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within a capitalist society are already in sight. Labour will now turn its mind to those problems of fundamental reconstruction which have always been its main objective, but still have to be worked out in practical detail.

Mr. Morrison, too, said much the same thing at South Hackney, and the *Daily Herald* (the Labour daily) noticed his remarks with approval.

The Labour party (he said) must review its policy, which remained fundamentally sound, in the light of modern economic and financial problems. . . . There must be more emphasis upon constructive socialism, which would win to their support the intelligent middle class no less than the intelligent working class. There must be less emphasis upon the cash benefits of Labour politics.\*

But there are differences, too, among the reformists. Mr. J. D. H. Cole also considers the old idea of milking the capitalist cow not socialism at all, and, anyhow, played out. He recognises the need for fundamental reconstruction, but he does not wish to see Labour "a national, classless party." Its defeat, indeed, he puts down largely to the fact that it was going in that direction, and he believes that the coming Labour party will be far more extreme than the old one, though "its extremism will be essentially constructive and realistic."† To turn to the victors, however, the Conservative party is overwhelmingly preponderant in the House of Commons, but the bulk of its members must realise that they owe their presence there to their advocacy of a national and not of a party policy. The Prime Minister is the man on whom all eyes are fixed. His personal followers are a mere handful, but for all that he enjoys an exceptionally powerful position, for he is the lynchpin of the National Government. His leadership is indispensable if it is to hold together. And there is a formidable rock ahead, on which its unity might split, the question of tariffs and the use to which they should be put, if it is decided that they are necessary to prevent a currency collapse. His will be

\* *The Times*, November 2, 1931.

† See *The New Statesman and Nation*, November 14, p. 602.

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the decisive voice. But the Conservative party know that they would be storing up a defeat as great as their recent victory if it could ever be said that they had used the Prime Minister as a stalking horse, while the Liberals would find it difficult on their side to challenge successfully the impartiality of the man who has so recently had the courage to cut himself free from his old party in order to do what he thinks right for the nation as a whole.

In forming his new Cabinet the Prime Minister has given up the idea of having only ten members. There are now twenty—one Conservatives, three Liberals, two National Liberals and four National Labour. The principle of numerical strength has played no part in the selection, and the willingness shown by the Conservatives to content themselves with less than their relative strength might have led them to expect has made a good impression. For the immediate purpose in view the most important departmental posts are naturally those of the Chancellor of the Exchequer and the President of the Board of Trade. They are filled respectively by Mr. Neville Chamberlain and Mr. Runciman.

The victory of the National Government has gone far towards re-establishing foreign confidence, but the nation is by no means out of the wood—the dangers indeed which have to be met are, as is made clear elsewhere in this issue,\* as great as ever, and they depend upon world factors, many of which are beyond the control of any single nation. The election has brought a breathing space. It will enable our problems to be considered without haste, but it must also be without rest. The National Government, like its predecessors, will stand or fall by the event.

\* See the articles entitled *Great Britain and the Financial Earthquake* and *The World and the Crisis*.

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### II. THE POUND AND INDUSTRY

ONCE the shock of the historic decision of September 21 had worn off, British industry, or at least British exporting industry, breathed more freely than it had done for six years. It was as if a load had been lifted from the back of every manufacturer north of the Trent. First anxieties naturally concerned the sharp rise in the sterling prices of imported raw materials and the difficulties over the adjustment of contracts in sterling. But these were soon realised to be more than offset by the competitive advantage of the exchange bounty upon British exports which follows the reduction in their gold price. We are still too close to the event to measure the full effects, but writing now, nearly seven weeks after we cut adrift from our gold anchorage, there are many grounds for hope that the expectation of industrial revival will not be disappointed. There are almost as many grounds for uncertainty ; a few days or a few weeks may falsify the most cautiously drawn conclusion. The one thing that may count for most is the psychological reaction ; the mood of depression and despair has been broken at last.

At the moment, the unemployment figures offer the most striking index of change. Improvement began to be reflected in the returns in the first days of October. Between September 28 (when the total for Great Britain reached the highest figure recorded, 2,824,772) and October 26, there was a fall of nearly 100,000. The decrease was unevenly spread. In the southern divisions—south of a line drawn from the Bristol Channel to the Wash—there was an increase in unemployment, mainly seasonal, of over 40,000. North of that line—in the midland and northern counties, in Wales and Scotland—there was a decrease of about 140,000. The largest fall was in the Midlands, where the number of registered unemployed

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dropped by 12 per cent., and in the north-western and north-eastern counties, where the drop was over 6 per cent. The improvement in employment was seen first in the textile trades—cotton, wool, lace, hosiery, linen, jute and silk; the boot and shoe trade; the pottery trades; motor manufacture; and in coal mining. Metals and the heavy industries have responded more slowly. The lighter metal trades moved first; pig iron production increased; but a revival in steel, heavy engineering and shipbuilding is much less in evidence.

By the side of the rosy pictures of industrial revival given in the newspapers, the unemployment returns might not seem too favourable. The lag between the first spurt in confidence and its translation into workshop and factory activity differs much from industry to industry. The increase in employment has affected first the "temporarily stopped"—those on short time or "stood off" for short periods. But as factories and mines that have been closed are slowly brought into production again, the numbers of the "wholly unemployed" are being touched, although not sufficiently as yet to offset entirely the seasonal increases (especially in building trade unemployment, which is above the normal), and whatever effects the economies in expenditure on public works may have. After the middle of November the unemployment figures may be affected by the administrative changes which are reducing the numbers drawing benefit.

The depreciation of sterling gives, of course, a two-fold stimulus to industry, through its operation as a bounty on exports and a check on imports. So far the exporting stimulus appears to have been the more immediate and important, and the advantage will remain so long as the gap between sterling and gold prices continues. Our main competitors in the export of manufactured goods remain on the gold standard, and as a considerable part of our raw materials is drawn from countries which have left gold, there is a strong balance on our side. The tendency to

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replace foreign imported manufactures by British in the home market may be slower to operate, as there are stocks to be absorbed, and these may have been increased during the last two months in anticipation of the introduction of a customs tariff. Moreover, it appears that foreign sellers, in a number of cases and for a time, are under such pressure to export that they are prepared to make concessions in price which will cut away some part of the "exchange tariff" advantage to the home manufacturer. As, however, 80 per cent. of our 1929 imports of manufactured goods came from countries still on the gold standard, and as only 50 per cent. of our raw materials proper came from countries now on gold, the ultimate advantage should be on our side, as the value of the finished goods is a good deal more than that of the raw materials used. The obsession of many manufacturers with a tariff for its own sake, and the rather hysterical outcry against all imports as "dumped" have tended to obscure the very real change that has taken place in the position of the home market.

The case of the cotton trade may be taken to illustrate the new situation of the exporting trades. In August it could be said that no more than 50 per cent. of Lancashire's active spindles and 60 per cent. of the active looms were at work; this is to leave out of account entirely the fifth of the machinery of the industry which was entirely shut down. The reaction to the departure from the gold standard was immediate. For the first ten days or so, the increased business was mainly initiated in this country by producers who, having long relied on the weakness of the yarn market, now hastened to cover themselves for the moderate orders that had already been booked forward, and by the home market which feared an early rise in prices. Foreign orders came in briskly in the early days of October. Between September 21 and November 2 there was a drop of 62,000 in cotton trade unemployment in Lancashire, of which 12,000 was among the "wholly unemployed." This represented a decrease in the per-

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centage of insured workers unemployed from 41·3 to 29·1. The increase in production was probably less than these figures may suggest, but it received a good deal of public notice because whole districts in Lancashire were suddenly raised from the depths of depression to an activity which they had not known for two years. Other districts, whose types of goods had not yet been called into demand, were for the time little influenced.

As the revival will not be reflected in the Board of Trade returns until November, quantitative estimates are hazardous. The most important demand came from China, where since the war Lancashire's loss of trade to Japan has been catastrophic. Chinese purchasing power has increased with the sharp rise in the price of silver, but currency conditions have had a powerful ally in politics. The anti-Japanese boycott, which followed the Manchurian trouble, diverted to Lancashire Chinese orders for yarns to supply the Chinese mills, and for cloth, and lines of goods have been asked for which Lancashire merchants had long ago given up for lost. Anti-Japanese feeling has also spread to the smaller Far Eastern markets, where Chinese merchants have influence. There is further a normal seasonal increase in business to be taken into account. It is, therefore, not easy to assess the weight that should be given to the monetary factor. But it is clear that in all the markets in which Japan has been a formidable competitor—in China, South Africa, Egypt, Iraq, the Near East, Australia, East Africa, and so on—a definite handicap has been imposed on her trade, a handicap that is felt both in gold standard countries and in those that have followed sterling. In most of these countries Lancashire has experienced an increase of demand.

It would be a rash assumption that sterling depreciation of itself is enough to create an automatic transfer of trade from Japan to Lancashire. It was commonly said a few months ago that Lancashire goods were about 15 per cent. too dear to be competitive. If this could be taken as the

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measure in which British costs were too high, it would seem to have been overcome in some branches of trade. It is now calculated that, allowing for the increased cost of cotton in sterling (the price is set by the United States, and cotton in India and Egypt moves in sympathetic relation, although these two countries have followed sterling), Lancashire can sell plain grey cloth of the type Japan has almost monopolised in the East at a reduction of 15 per cent., and the more finished types of goods at even greater reductions. Japan, however, has revealed considerable elasticity in competition, and has cut the prices of her standard goods since September 21. In Australia, even after sterling left gold, and in spite of tariff discrimination, Japan could sell at  $7\frac{1}{2}$  per cent. below Lancashire in some lines. Japanese competition has by no means been disposed of; the most that can be said is that the fight has become more equal. The morals which trade missions and trade advisers have drawn from the decay of Lancashire's Eastern connections still need to be pressed home. Moreover, if Japan should be forced off gold, as it is possible she may be, Lancashire's position would be, in relation to her most dangerous competitor, as bad as ever.

Awakening interest is reported from nearly all Lancashire's markets, even in India and South America, which have been so much depressed through the weakness of commodity prices. Many orders can be traced to a transfer from European competitors who remain on gold—from Italy, Switzerland, Czechoslovakia, and Holland, and (in the trade with South America and Canada) to a transfer from the United States. In Europe itself, more orders have been booked, but little is hoped for until general financial conditions improve. All this would be a good deal more encouraging if there were any conviction that the spurt in Lancashire trade is part of a world revival. Some evidence exists of a slight increase in the world production of cotton goods in recent months, but the latest movements appear to be no more than an increase in Lancashire's share at the

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expense of other producing countries, many of which are hardly less depressed.

Many of the conditions which apply to the cotton trade revival hold good of the other industries in which unemployment is falling. In the coal industry, for instance, the improvement is not uniform, although production has gone up and quotas have been increased. The departure of the Scandinavian countries from gold has given British exporters a marked advantage over Germany and Poland, but one which those countries are striving hard to counter. In some other European markets the British exporter has to face bounties and licences and import regulations which may whittle away much of his gain. The difficulties of foreign exchange—through the lack of facilities for forward dealings, and the restrictions on exchange transactions which exist in most countries—have also hampered business, and have deterred manufacturers and merchants in many industries from putting forward the effort needed to take up or capture foreign orders.

The cheerful tone of industry has its counterpart in the labour situation. The movements for wage reductions have, for the moment at least, been sidetracked. There has, however, been no movement in the other direction, and the estimates of the London and Cambridge Economic Service suggest that an increase in the cost of living index serious enough to justify higher wages is hardly to be expected.

Optimism runs so strongly that the dangers, external and internal, receive less than their share of attention. At best our hold on prosperity is precarious. A further fall in world gold prices, a nearer approach of sterling to gold parity, the forcing of other countries off gold, or the contraction of the channels of trade by new restrictions would neutralise our advantage. No lasting revival can be looked for while the world depression remains so intense. Even if the credit crisis is miraculously overcome without further catastrophe, the problem of Great Britain's high costs is only

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partially solved. Industrial reorganisation and the correction of wage disparities, have become no less vital. The Economy Act and the Anomalies Act will between them go a long way towards removing the features of the unemployment insurance system which have hampered industrial flexibility, but they are not a substitute for the thorough reform that we may look to the Royal Commission to propose. The old individualist Adam, whom depression had bruised but not destroyed, is rising again in the cotton and coal industries and improved demand is being used as an argument for dropping all attempts at a unified policy. The cotton industry may shortly pluck up courage to apply to Parliament for the creation of a statutory body to raise funds and administer them in the purchase or immobilisation of surplus plant. This may put a strain on the new Parliament hardly less severe than that which the question of the continuance of the coal marketing schemes may impose. In some other industries it is much to be feared that preoccupation with the prospects of tariffs may interpose a fresh obstacle to internal reorganisation.

## IRELAND : EVENTS IN THE FREE STATE

### I. THE FALL OF THE POUND AND THE INTERNAL UNREST

ALMOST alone among their European confrères our politicians spent a quiet and well deserved summer holiday. Amidst the Kerry mountains, in Breton villages, on the wild coast of Connemara and in similar places they have enjoyed such fresh air and sunshine as this terrible summer afforded. But in the end the rumblings of the economic crisis reached Dublin, and the fall of the pound from the gold standard brought them rushing back to duty. The British economy budget had aroused little more than a passive sympathy with our neighbour's plight, and few, save close students of the situation, realised the instability of sterling. A few days before the crash came Mr. J. W. Dulanty, our Commissioner in London, had pointed out that it could only be regarded as unfortunate for British manufacturers' and workers' interests that trade with the Free State was becoming so lopsided, and that British purchases of Irish produce had declined so heavily. It was difficult, he declared, to see how the Free State could continue to maintain its comparatively large purchases in England if the British market became still weaker for Irish commodities. As soon as the financial crisis burst the necessity and chance of redressing this situation became more apparent, and Mr. Cosgrave, in a sensible message to the nation, exhorted the people to buy first

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Irish produce and manufactured goods and afterwards those of Great Britain in preference to those of foreign countries. Under the Currency Act of 1927 our pound is anchored to sterling, and there is therefore no exchange rate between the Free State and Great Britain. There is no country in the world better situated than we are to supply just what the British consumer wants in the way of food, and there must be something wrong somewhere if we are now not able to take a leading place in British markets. Naturally, the Fianna Fail party, apparently oblivious of these facts, have demanded that we should immediately sever our connection with sterling and protect our industries behind a tariff wall, or, if necessary, an absolute embargo. They propose that a central bank should be created in Dublin and that our currency should be made independent. At the same time they attack the Government for not enforcing economy, quite oblivious of the fact that it was largely to deflate the Fianna Fail promise of complete de-rating that the Government were foolish enough to introduce partial de-rating this year, in the teeth of the majority report of the special commission they set up to inquire into the matter. Mr. McEntee, one of the leading Fianna Fail deputies, in a letter to the press, suggests that the cause of England's financial crisis was that France had decisively defeated Great Britain in the struggle for the political and financial control of Europe, and that all through this struggle Mr. Cosgrave's Government, the Anglo-Irish bankers, and the Free State Currency Commission, had been on the side of Great Britain against France. Now that France had won and Britain had lost we must share with Britain the consequences of that loss. Doubtless, if England had backed France in her plans to smash Germany, Mr. McEntee would have been equally shocked and accused Mr. Cosgrave of similar evil designs. The Leader of the Labour party, Mr. J. T. O'Connell, T.D., prophesies that the Free State is facing up to a state of emergency almost as great, if not as imme-

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diately apparent, as that which has recently overtaken other countries, but his remedies might be best described as tepid and diluted socialism of a not very practical nature. He would provide useful and remunerative employment for all who are able to work, and use the credit of the country for this purpose. Roads, housing, harbours and waterworks should be constructed with money raised by national loans, and the millions of Irish money invested abroad should be induced to return to the Free State for these purposes. These projects, if pursued seriously, might well land us in a similar position to that of Great Britain, when we tried to balance our next budget. The new National Centre party, which is led by Mr. P. Belton, a former follower of Mr. de Valera, has adopted a policy which includes the establishment of a central bank in the Free State, with a gold reserve and control of national credit, currency and banking ; the financing of national housing by the central bank ; securing the home market for Irish products, both agricultural and industrial ; the complete de-rating of all agricultural land ; the drastic reduction of all legal charges, and the codification and simplification of the law. This new party maintains that the interests of the agricultural community and of the country as a whole would best be served by maintaining a party in the Dail independent of all other parties, which would act in all matters political and economic on the directions of the party executive. In short, it represents a purely selfish agricultural policy of the narrowest kind, but, as neither Mr. Belton nor his followers represent any considerable section of the community, it need not be taken too seriously.

It would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation there can be little doubt that there would be an irresistible demand for the creation of

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an independent currency in the Free State. That will not take place as long as the reasonable stability of sterling is assured, and the action of Denmark in deserting the gold standard in order to maintain its British trade has helped us to realise the fact that our trade with England, which is our principal market, could not be maintained if we deserted the pound. One strange result of the suspension of the gold standard in Great Britain was that, for the first time in recent years, the Irish bank rate did not, for several weeks, follow the Bank of England rate, but remained at 4½ per cent. Finally, the pressure of the English banks, exerted selfishly through the Belfast Bank (a mere satellite of the English Midland Bank), compelled the Irish banks to follow suit—perhaps not altogether unwillingly. For the first time some strong comments have been heard in Belfast business quarters on the methods of English finance.

But the question of our external financial policy is entirely overshadowed for the moment by a domestic issue of even more vital importance.\* For the last few months there has been an alarming increase of political crime, obviously directed and inspired by the extreme wing of the republican movement. On July 19 a young farm labourer named John Ryan, who had given evidence in a recent prosecution for illegal drilling, was taken from his home at Cappawhite, County Tipperary, at midnight by armed men and was found shot dead next morning on the roadside with a label bearing the inscription : "Spies and informers beware. I.R.A." On August 12 the town of Cootehill, County Cavan, on the border of Northern Ireland, where an Orange meeting was to be held, was invaded by large bodies of men armed with sticks, a railway bridge leading to the town was blown up, trees were thrown across the roads and trenches dug, so that it was impossible to enter the town, and the platform at

\* See *THE ROUND TABLE*, No. 84, September, 1931, p. 852 *et seq.*, and No. 83, June, 1931, pp. 626 and 627.

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the place fixed for the Orange meeting was destroyed. Strong forces of military and Civic Guards were drafted into the town immediately to preserve order, and a number of young men were arrested for having issued military orders in the public streets. The Orange meeting was not held, and a serious disturbance of the public peace was only narrowly averted. This occurrence had, of course, the natural repercussion of anti-Catholic riots in Northern Ireland. That the so-called Irish Republican Army was responsible for this demonstration is proved by a document issued to the press by its Army Council, dated August 22, in which it was definitely stated that "an imperialist meeting at Cootehill on August 12 was suppressed by order of the Cavan Brigade I.R.A." This communiqué further asserted that the enemies of Irish freedom are to be found equally within the Catholic and Protestant communities, and their rôle is to keep the masses of the Irish people divided by sharpening religious antagonisms. It was vital, therefore, that any attempt to raise sectarian strife should be vigorously suppressed. How any one, outside a lunatic asylum, could hope to avoid raising sectarian strife by suppressing an Orange meeting in the North of Ireland it is difficult to imagine; but such is the mentality responsible for the direction of the extremist movement in Ireland. The net result was that between sixty and seventy persons were injured in Armagh, Portadown, Lisburn and Belfast, whilst damage to Catholic property amounted to about £4,000. Other incidents which have lately taken place include the destruction by armed men of a hut erected by some boy scouts in the County Louth, the wounding of two men by nocturnal assailants in the County Clare, and a determined attempt to shoot the State Solicitor in the same county. How far these occurrences are the work of one organisation it is difficult to say, but it is abundantly clear that a determined attempt is being made by armed terrorism to overthrow established authority.

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No executive in a civilised country could tolerate such a menace and continue to exist, and immediately the Dail reassembled, on October 14, the Government introduced a Bill to deal drastically with the organisers of these disturbances. Prior to its introduction the Government members of the Dail and Senate were visited in their houses by members of the extremist organisation, who sought from them an expression of their attitude towards the Government's proposals—although these had not then been made public. These members have since been under police protection. The usual agitation amongst local bodies was also carried on, and an attempt made to secure their condemnation of the proposed legislation in advance. This was only partially successful. The Act, which is entitled the Constitution (Amendment) Act, was passed through both houses of the Oireachtas under a stringent closure motion in four days, and, as its title implies, encroaches upon the provisions of the Free State Constitution, in which careful provision was made for the liberty of the person, free expression of opinion, and trial by strict processes of law. It creates a new article of the Constitution, to be known as Article 2 (a). This article establishes a tribunal composed of five military members for dealing with political crime. This tribunal wields powers such as no judicial authority has ever exercised before in Ireland. It will control all the functions of justice within its sphere, including the death penalty, and there will be no appeal from its decisions, although the Executive Council may pardon convicted persons and remit the punishment imposed. Offences may be brought before the tribunal on the certificate of an executive minister, and its jurisdiction includes political cases now awaiting trial before the civil courts. Furthermore, the police are armed with new and exceedingly drastic powers for the suppression of unlawful associations and newspapers, and for the arrest of suspects. An order of the Executive Council declaring that, in its opinion, any association is unlawful is decreed to be conclusive

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evidence that such association is an unlawful association, and the special tribunal is given power to close buildings which are being used for certain unlawful purposes. A remarkable section of the Act has been drawn up to meet the case of the possible kidnapping, wounding, or death of a deputy or senator through the unlawful act of any other person. In the event of such act preventing any member of either house of the Oireachtas from taking part in its proceedings, the Governor-General may, on the advice of the Executive Council, appoint a substitute and (or) adjourn either or both houses of the Oireachtas. There can only be one justification for such a measure, and it was made clear by Mr. Cosgrave in proposing the closure motion, namely, that if the State does not kill the existing lawlessness it will kill the State. In support of this contention he was able to point to the long list of recent crimes and incidents already referred to, and to the public statements of their organisers, the cumulative effect of which conclusively proves that there is a far-flung armed conspiracy to upset the Free State. This conspiracy has, as he pointed out, successfully paralysed the whole machinery of trial by jury and the work of the police in dealing with political crime. It is notorious—and indeed Mr. Cosgrave admitted it—that the ordinary civil judges have refused to deal with political crime, and therefore a military tribunal is necessary.

It is unfortunately only too true that the present practice of political murder and terrorism in the Free State is an evil inheritance from the methods employed by the Sinn Fein leaders during their struggle with England, and in this respect our present Government is only reaping what it has sown, nor are Mr. de Valera and his friends in any better plight. Every argument that was used to justify the attack on established authority by the gun under British rule is being used now, with just as little moral right, to justify the overthrow of the present Government. Those who preached, before 1921, the doctrine of "killing no murder" where the ends were political—and they were, unfortunately,

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often those responsible for the moral leadership of the people—are directly responsible for the present condition of the Free State, and the end of the bloodshed is not yet. One doubts if it can ever end until, as a nation, we definitely admit that such a doctrine never was and never can be right. Such an act of national psycho-analysis might rid us for ever of the assassin. The vital question of the hour is, however, whether the people of the Free State will now, once and for all, decisively repudiate such methods, which can never lead to anything but anarchy and ruin. As Mr. Cosgrave pointed out, the test of the capacity of a people to maintain a stable State in existence lies in its determination to defeat these evils. We are now, as he said, being put to that test, and on the firmness of our action here and now depends the whole life of our State, as well as our good name before the other civilised peoples of the world. There is every reason to believe that our people, who are fundamentally moral and conservative, will rise to the occasion. It is remarkable that, in spite of intimidation, the Government and Independent members voted solidly for the Bill, and that two prominent members of the Labour party, Mr. D. Morrissey, T.D., Deputy Speaker of the Dail, and Mr. R. S. Anthony, T.D., one of the members for Cork, joined them in spite of the decision of their own party to vote against it. Fianna Fail has made no real attempt to controvert the catalogue of crime and intimidation presented by Mr. Cosgrave. It has justified itself by asking the Government to resign, and by insinuating that if the oath of allegiance were eliminated from the Constitution, all would be for the best in the best of all possible worlds. During the debate in the Dail Mr. de Valera, it is true, made for the first time the, for him, remarkable declaration that there is no authority outside the Dail to take human life, and that "if there is no authority in this House there is no authority anywhere in the country to rule," but he was careful almost to destroy this statement by suggesting that the present Government were only the successors

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of the British Government, and that the ordinary law was sufficient to deal with the crimes mentioned by Mr. Cosgrave, although it has not been found possible under existing conditions to bring anybody to justice in respect of them. The debate, with the exception of Mr. Cosgrave's opening speech, did not reach a high level, and was chiefly remarkable for the repetition of the usual stale taunts as to what various celebrities did or did not do during the Anglo-Irish struggle. It is obvious that the Catholic Church is at last thoroughly alarmed as to the situation, and the Most Reverend Dr. Fogarty, Bishop of Killaloe, has not hesitated to declare that there was a group in this country which had adopted the methods and principles of Soviet Russia and was preparing the ground by murder, intimidation and propaganda. This, he declared, was the peril Ireland was now faced with, and a bigger peril, in his opinion, she never before had to deal with. The Catholic hierarchy, in a pastoral letter, read in all the churches on Sunday, October 18, have definitely declared the extremist military organisation to be immoral and one to which no Catholic can belong. They point out that the Free State has a democratic government and that no one has a right to seek to overthrow that government by force of arms, and that this holds good, not only of the present government, but of any government which may follow, as long as it secures the support of a majority of the people by constitutional means. The only criticism which can be passed upon this clear and accurate statement of Catholic doctrine is that it might have been written and promulgated with equal truth fifteen years ago, and that, if it had been, there would have been no necessity to do it now. Let us hope that it is not too late.

The pastoral also condemns the new political organisation called *Saor Eire* (Free Ireland) on the grounds that it is communistic in origin and principle. This organisation, which has been started by the ultra-extremists in order to counteract the Government's new move and also

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to prevent Mr. de Valera's party from stealing their clothes, held its first congress in Dublin on September 26 and 27. Its objects, as stated in its constitution, are to organise and consolidate the Republic of Ireland on the basis of the possession and administration by the workers and working farmers of the land, instruments of production, distribution and exchange, and to restore and foster the Irish language and culture. The means by which these objects could be achieved were by organising committees of action amongst the industrial and agricultural workers to lead the working class and working farmers in their day-to-day struggle, and to mobilise the mass of the Irish people behind a revolutionary government for the overthrow of British imperialism in Ireland, and the organisation of a workers' and working farmers' republic. It will be observed that this programme has a distinctly Russian flavour, and this has been resented by Miss Mary MacSwiney, who, although the most orthodox of extreme republicans, has, to her credit, refused to embark on a class war to attain her objective. In a recent communication to *An Poblacht*, the extremist weekly, she asks that some more exact definition of the term "workers" shall be given, and one that does not exclude any portion of the Irish people. It may be expected that the young gentlemen responsible for this bombastic document will not comply with her wishes, and that Miss MacSwiney, who is essentially religious, will not give her support to any movement officially condemned by the Church. The mysterious republican Dail, which is in effect Miss MacSwiney's private parliament, has issued a pronouncement in which it states that it deprecates any attempt to create class distinctions, or promote class warfare, and warns loyal republicans to be on their guard against any attempt to entice them away, or force them to surrender their allegiance. It is only too obvious that this body, which is composed in part of amiable and ancient doctrinaire revolutionaries like Professor Stockley, has ceased to have

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any effective control over the younger and more advanced extremists, and that it will soon be completely eliminated.

In a lively analysis of existing parties, the organ of Saor Eire describes the Cumann na nGaedheal as the mouth-piece of the Bank of Ireland groupings. It set out to use the Treaty as a "stepping stone," but the opposition developing into civil war pushed the party inevitably to the right until it has become exclusively the party of the big landowners, commercial, industrial and financial interests. Nor is it kinder to Mr. de Valera, whose party, Fianna Fail, it depicts as that of the Irish middle class who feel that the imperialists have hogged the good things the Treaty should have yielded them. The Labour party is contemptuously dismissed as a mere group of adventurers living under the shadow of the Government party, who have failed both the unemployed and the workers.

Acting promptly under the powers conferred by the new Act, the Government has constituted the military tribunal it provides for and has declared twelve associations, half of which are described as communistic, to be illegal. The proclaimed associations include, of course, the Irish Republican Army and Saor Eire. The others are mainly satellites of these two bodies. Sad to relate, they do not include Miss MacSwiney's organisation, Sinn Fein, or her personal Dail. This is the unkindest act of all. The prisoners awaiting trial will now be tried by the military tribunal, and until the results of these trials are made public no substantial developments are probable. It is unlikely that the Government will take any drastic action unless further crimes occur. The ringleaders of the Republican Army have fled the country.

Another problem, of a legal nature, which has necessitated immediate legislation, has arisen concerning the jurisdiction of the Circuit Court. This court was set up by the Courts of Justice Act, 1924, with a jurisdiction of £300, as compared with a jurisdiction of £50 enjoyed by the County Court which it replaced. The Bar of Ireland

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strongly objects to this increased jurisdiction, because it has reduced expensive litigation in Dublin to a minimum and decentralised the administration of justice—a step which was absolutely necessary in a relatively poor agricultural country like the Free State—and certain members of the Oireachtas have succeeded in preventing the enactment of rules for this new court, although these rules have been prepared, revised and presented to the Oireachtas on four occasions during the last seven years. Through this deliberate obstruction the Government was forced last year to set up a parliamentary committee to inquire into the whole working of the Courts of Justice Act, and this committee, although composed of carefully selected members friendly to the views of the Bar, was forced by public opinion and results to report that the Circuit Court jurisdiction should not be altered. Matters have now been brought to a head by a decision of the Supreme Court\* that, owing to the absence of legal rules, the Circuit Court costs cannot exceed the very low scale fixed in the former County Court. This decision, by reducing barristers' fees to a minimum, has naturally brought the Bar to its senses, and the Bill which the Minister for Justice has introduced, and which will regularise the present situation, is not likely to encounter serious opposition. Seldom has there been a better example of how a powerful profession dealing with a technical matter can nullify legislation, and seldom has such a body been more completely and properly hoist with its own petard.

Amidst all these "excursions and alarms" Mr. de Valera's new daily paper, *The Irish Press*, made its appearance on September 5. It takes as its mottoes the Irish text of the Four Masters : "For the Glory of God and the Honour of Ireland," and the English slogan : "The Truth in the News." In make up it is a cross between the *Daily Express* and a parish magazine. Its sporting news is given the usual abnormal space common to most

\* Quinn and another *v.* Stokes and another, July, 1931.

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modern papers. Its leading articles are moderate in tone and reasonable in argument. So far it has not descended to the baser personalities of Irish low-class journalism, and it claims that it will not mislead its friends nor misrepresent its opponents. Its advertisements indicate that its present revenue must be about one-tenth of that necessary to make it a commercial success, but this of course may rectify itself in time if its circulation increases. In any event, it may be predicted that it will at least last till after the general election, which is probably imminent.

Irish journalism, in its widest sense, has suffered a grievous loss through the death of Senator P. J. Hooper, Vice-Chairman of the Senate. He was for many years associated with the leading Irish Nationalist paper, *The Freeman's Journal*, which has now ceased to exist, of which he was successively London correspondent and afterwards editor during a very difficult period. In recent years he has acted as Irish correspondent for foreign newspapers, and was also engaged in writing a life of the late Nationalist leader, John Dillon. He was a brother of the late Mr. John Hooper, our brilliant Director of Statistics, who died last winter.\* Gifted with a wide knowledge of affairs, a generous mind, and a well-balanced judgment, Senator Hooper's death leaves a serious gap in our national and political life, and he is mourned by a host of friends.

### II. THE TRADE BALANCE AND OTHER MATTERS

THE Free State trade returns for the year ended June 30, 1931, show that the volume of trade during that period was the lowest since 1924. The total trade was £93,285,096 compared with £109,669,697 for the year ended June 1930—a decrease of £16,384,601, and the adverse trade balance, as compared with the same year, has increased by £689,921. The detailed figures show that the

\* See *THE ROUND TABLE*, No. 82, March, 1931, p. 414.

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export of butter has fallen, and that there is a reduction of 45,230 in the number of cattle exported, representing a drop of £900,000 in value. More pigs and horses have been exported, but fewer sheep. Strange to say, the quantity of potatoes exported was five and a half times that of last year, and the gross value of this trade increased nearly fifteen times. The practically complete cessation of work in the Ford factory at Cork is accountable for £1,700,000 of the decline in exports during the half-year ended June 1931, so that the decline in the prices for agricultural produce cannot altogether account for more than £2,800,000 out of the total decline of 4½ millions in the same period, and, bad as the farmers' position may be, the lower prices for imported foodstuffs nearly compensates for this. But the trade returns do not tell the whole story. The revenue returns for the first half of the financial year show that receipts amounted to £10,916,000, as compared with £11,188,148 for the first six months of the 1930-31 period. This reduction of £272,000 for the half-year would be of little consequence were it not for the fact that a special duty on petrol and an extra duty on sugar were imposed in the last budget in order to meet the increased grant allocated for the relief of rates on agricultural land. The figures given show that the extra amount required has not been produced by the fresh taxation, and unless the second half of the year, which is generally better, shows a substantial improvement, there will probably be a deficit on the whole year, equivalent to the relief granted to the farmers. These facts suggest the necessity for stringent public economy, and probably increased taxation.

An interesting sidelight on the social habits of our agricultural population is afforded by the publication of an analysis of the conjugal conditions of our population in relation to occupations, derived from the recent census. It discloses that between the ages of twenty-five and thirty-five only 5 per cent. of farmers' sons are married, whereas 24 per cent. of agricultural labourers and 55 per cent. of

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builders' labourers between the same ages are married. In England the number of farmers' sons of the same ages who are married is about double. This pernicious practice is indeed the Irish farmers' method of birth control, and it is not uncommon to find men of from forty to fifty years of age still single because of the economic impossibility of setting up households of their own until they inherit the farm on their parents' death. Occasionally the old people assign over the farm when the son marries, but only if the prospective bride can pay a sum large enough to satisfy the family. These conditions increase the necessity for developing rural industries to absorb these farmers' sons and enable them to marry at an age at which they can rear healthy children under natural conditions. Emigration has in the past supplied an outlet for many of these young men, but this door is now practically closed.

Two important problems, both concerning the use of our roads, will have to be discussed by the Oireachtas during its present session. The first concerns traffic regulation, and a Bill dealing with this aspect of the matter was introduced in the Dail last July. It follows in many respects the new English Act. It provides for driving tests for the drivers of public vehicles, and compulsory third party insurance for all drivers. As regards speed, the Bill prescribes certain speed limits for heavy vehicles, including omnibuses, but imposes no speed limit on the private car ; it lays down, however, that a speed of more than thirty miles an hour shall be *prima facie* evidence in a charge of dangerous driving. Driving a motor car whilst drunk is at last made an offence punishable with severe penalties, including imprisonment up to six months in the case of a second offence.

The next problem arising out of the situation, namely, the paralysis of our railways through the increasing bus competition, is not so easy to solve.\* It is known that it has been engaging the attention of the Ministry of Industry

\* See THE ROUND TABLE, No. 83, June, 1931, p. 631.

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and Commerce for a considerable time, and legislation is now believed to be imminent. An official communication states that the primary object of this legislation is not necessarily to preserve railways or to keep branch lines open, but to secure for the travelling and trading public the cheapest and most efficient services which, between them, the existing systems of transport can provide and continue to maintain. Thus it is not proposed to require railway lines to be kept open if adequate facilities at a lower cost can be afforded otherwise, nor is it intended that excessive road competition should continue in such a way as to waste the resources available for providing transport, and so ultimately to raise its cost. The principle enforced will be that transport exists for the purposes of trade rather than trade for the purposes of the parties concerned in transport, and the goal aimed at is to bring about a more economic distribution of traffic over road and rail, based on the capacity of each system to provide the services that present conditions necessitate, at a cost which the traffic can bear. As the policy embodied in these proposals will probably involve the closing of a large number of the superfluous branch railways (which number about forty), it can be imagined that it will be strenuously resisted by the Labour representatives. The Labour party has in fact already presented to the Government a closely reasoned and constructive memorandum, demanding the nationalisation of the railways.

Another serious question which has recently been much discussed, and which also needs legislation on a large and drastic scale, is that of urban housing.\* The Civics Institute of Ireland, in a recent important memorandum on this question, states that, in order to make an adequate attack on the slum problem, in Dublin alone provision should be made for the proper accommodation of about 18,000 families in the next ten years. They agree with Burke's dictum to the effect that human beings are not

\* See *THE ROUND TABLE*, No. 77, December, 1929, p. 136 *et seq.*

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lay figures to be arranged and rearranged at will, but are to be dealt with as persons of pronounced habits and definite tendencies, and they consider that this must be borne in mind in connection with the matter of housing. At the same time, however, they claim that in the public interest there must be a general improvement effected of such a kind, and to such an extent, that environment will be a help—instead of, as at present, a hindrance—to a better standard of life. The Institute admits that the large amount contemplated for the provision of houses, both in Dublin and throughout the country, is a very serious matter, and suggests that the major portion of the cost would best be met by long-term loans, but that a substantial sum might be obtained from the public by the flotation at the same time of a short-term housing loan at a low rate of interest if this is done whilst the necessity for action is obvious. It is understood that the Dublin Corporation proposes to seek powers to borrow a million pounds in the near future in order to make a substantial attack on this social cancer.

A strange development has taken place in connection with the Government's policy of encouraging the use of the Irish language. A number of places were deliberately reserved in some of the public examinations, including the preparatory training colleges for teachers, for those who got a 75 per cent. qualification in oral Irish, in order to encourage candidates from the Ghaelach, or Irish-speaking districts, but it has been found difficult—even with such inducements—to get the necessary number of applicants from these districts. It is now proposed to take a number of pupils each year from Irish-speaking families and to send them to suitable secondary schools for the purpose of giving them a free education and afterwards using them as teachers of technical subjects like domestic economy. It remains to be seen whether such spoon feeding is likely to be successful; it certainly cannot stay the rapid decay of the language, which is due to economic reasons beyond

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the control of any Government. The sad fact remains that the Irish language has now virtually ceased to be a language and has become an industry. Irish culture of a more vital kind will receive considerable advertisement from the tour which the Abbey Theatre Company is at the moment making in America. It may indeed almost claim to be the parent of the many small theatres which have done so much to promote and encourage native dramatic art in America, and although its actors speak English—or, shall we say, Anglo-Irish—it is one of the most distinctive and national of our public institutions.

Irish art has unfortunately suffered a vital blow through the death of Sir William Orpen, its greatest figure. He has been so long associated with English artistic life that it may perhaps be forgotten that he was really a typical Dublin man, that his earliest artistic training was received there, and that at considerable sacrifice he returned to teach in Dublin during quite recent years. He was essentially Irish, both in his outlook on life and in the development of his art. It is tragic that he should have died in the full maturity of his genius when, perhaps, his greatest work was yet to come.

The Irish Free State.

November 1931.

# CANADA

## I. THE MARITIME PROVINCES

SIX years ago the maritime provinces formed one of the political storm centres of Canada. Prolonged economic depression had given rise to a movement for maritime rights which, though its objects were often obscurely thought of and incoherently expressed, nevertheless embodied the deep discontent of the people. Some, more daring than the rest, said that the only maritime right worth talking about was the right to independence. The cautious majority contented itself with vociferous explanations of the ways in which the maritime provinces had been injured or neglected by the rest of Canada, together with demands, more or less specific, for redress, the dreadful alternative of secession being held as a bogey in the background. In those days it was popular to speak disrespectfully of the rest of Canada, and especially of the central provinces of Ontario and Quebec. It would seem that their outstanding characteristic was avarice, but scarcely any adjective was then too condemnatory to apply.

To-day all this has changed. The people of the maritimes, if not satisfied, are at least silent. The clamour that once threatened to produce a new and independent political group has died away into the murmur of party bickering. Observers may witness here the end of a political movement. Within the short space of a few years one can follow its rise, triumph and decline and see in miniature

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the course followed by many more important agitations. What is the reason for the change?

The maritime rights movement was the outcome of adversity; it was brought to an end by prosperity. The swelling tide of business activity in the United States and Canada in the years following 1925 gradually had its effect on conditions in the maritimes. Trade through maritime province ports, especially Halifax and St. John, grew in volume; the coal and steel industry was reorganised under the most favourable auspices after being torn for years by internal dissension aggravated by political machinations; a large plant for the manufacture of paper was established at Liverpool in Nova Scotia; and with the return of a measure of confidence in the future, building construction—and reconstruction—was stimulated to contribute its quota to the general activity.

In so far as the improvement in maritime conditions was due to this cause, no individual or political party deserves the credit. But it was not entirely due to this. Political activity, usually so ineffective, played its part here. Indeed, the handling of the maritime problem affords, on a small scale, quite an instructive example of the way in which wise statesmanship can help to charm the serpent of disaffection. (Events like these help one to understand why natives of these provinces have acquired a reputation for political astuteness.)

The contribution of politics to the amelioration of conditions in the maritimes has come partly from provincial and partly from federal sources. In 1924, in Nova Scotia, the Conservative party was returned to power by an overwhelming majority and replaced a Liberal Government which had administered the affairs of the province for some forty years. It is true that by no means all the abuses that enthusiastic Conservatives expected, and even hoped, to discover proved to exist. Nevertheless, the event shows the advantage of a fresh outlook and fresh energies. The administration of the finances of the province was re-

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organised and improved, following a thorough-going audit. A Royal Commission investigated the coal industry and made incisive recommendations, partly as a result of which comparative peace was restored between management and men. The distribution of governmental work among the various departments was altered for the better and a new department was created, charged explicitly with the duty of fostering the economic development of the province. The educational system, under the direction of a new Superintendent of Education, was much improved, thanks to the larger sums of money appropriated to this use. But, what probably seemed of most importance to the public, and was perhaps the outstanding achievement of the Government, was its success in securing assistance for the province from the Federal Government.

This is where the contribution of Ottawa to the solution of the maritime rights problem appears. Forced by the exigencies of politics to take cognisance of the movement, the Federal Government dealt with it by the familiar method of a Royal Commission. The governments of the provinces submitted their claims to it and the Commission speedily reported. Considerably to the embarrassment of the Federal Government, but to the jubilation of the maritimes, the report gave wide recognition to the provincial claims. Large increases in the Dominion subsidies to the provinces, and a reduction of 20 per cent. in freight rates within the maritimes, stood out among minor recommendations. Could these sweeping proposals be acted upon? Strong opposition was encountered and their fate was for some time uncertain; but in the end they were substantially carried out.

What does the future hold? In so far as the improvement is due to better provincial government one may dare to hope it will be permanent. There seems to be a little more independent thinking—and voting—than formerly. But this belief must be held cautiously and prayerfully, for the forces of degeneration in these matters are, like grav-

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tation, the persistent ones, and to move upward is to struggle.

The permanence of the federal contribution must be judged still more uncertain. Here it is not a question of the quality of the administration but the generosity of the financial—and equivalent—assistance. How long will this last? The thought recurs that the interests of the various sections of Canada collide at many points and the Government is therefore surrounded by a fierce struggle of conflicting interests in which the strongest must generally win out. When prosperity sheds its softening influence over public affairs the bitterness of the struggle is modified, and some satisfaction can be given, from an overflowing Treasury, to all parties. That was the happy situation in 1927, when the recommendations of the Duncan Commission came to be considered. But things are different now. The world depression, a feature of which is the desperate condition of the market for Canada's principal product, has had its withering effect upon public as well as private finance, and rich surplus has changed to gaping deficit. No one knows how long the lean years will last, but it seems that the process of readjustment will be longer and harder than most people would have believed possible two years ago. In circumstances like these, concessions having financial effects are not so readily granted, and bargaining in general is closer. If this, or indeed anything else, robs the maritimes of their present comparative prosperity the memory will not fail to be revived of how profitable, to its sponsors, from the standpoint both of economics and politics, was the maritime rights movement.

## The Beauharnois Investigation

### II. THE BEAUHARNOIS INVESTIGATION

THE outstanding event of the last session of Parliament was undoubtedly the investigation by a committee of the House of the Beauharnois power project and, of the relations of the Beauharnois Power Corporation with the two political parties, particularly with the Liberal Administration of Mr. Mackenzie King which was responsible for approving of the plans of the corporation.

The Beauharnois (or Soulange) section of the River St. Lawrence is one of the three important stretches between Lake Ontario and Montreal which are obstructed by rapids. It therefore has a vital place in the project for the building of a deep channel and the production of hydro-electric power which has now been before the people of Canada and the United States for over a decade.\* These rapids lie in a stretch of the river some 14 miles in length between two broader portions of the stream named Lake St. Francis and Lake St. Louis. The section lies wholly within the bounds of Canada, and also within the province of Quebec. Between the two lakes there is a fall of 83 ft., making possible a total production of almost two million horse power of electrical energy, or about two-fifths of the total possible production from the river. Probably one-third of Canada's entire population is concentrated within the area available for a market, Toronto being within easy reach of transmission to the west, and Montreal only some 25 miles to the east. With deep water navigation to the ocean and cheap power, the immediate vicinity may become one of the world's richest industrial areas.

As early as 1926 Mr. R. O. Sweezey, a civil engineer of Montreal, became actively interested in the Beauharnois site, and planned, as he stated in a letter, to enlist with our syndicate two or three individuals, who in addition to providing some cash as their fair share, can assist us in getting

\* See *THE ROUND TABLE*, No. 72, September 1928, p. 832, and No. 81, December 1930, p. 172.

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our rights extended or enlarged so as to develop the entire available flow of the St. Lawrence at this point. As the whole situation is entirely within the province of Quebec, our influence has to be exerted only in Canadian political circles—that is, at Ottawa and Quebec.

After purchasing certain rights to the diversion of water which dated back to the days of French rule, Mr. Sweezey and his associates pressed their case at Quebec, and in April, 1928, obtained from the provincial government permission to divert a maximum of 40,000 cubic feet per second for a period of 75 years at an annual rental of \$50,000 plus \$1.00 per h.p. on the understanding that the company would develop a capacity of 500,000 h.p. within ten years and that authorisation would be obtained from the Federal Government "in so far as its rights are concerned." The right was also given to expropriate land for building a canal.

The company then hastened to push the offensive on the Ottawa front. Application was first made for the right to divert ultimately the entire flow of the River St. Lawrence, the company proposing that it would spend up to \$18,000,000 in completing the canal for navigation with locks and other necessary works. In the face of powerful protests, however, the company at a hearing arranged by Government on January 15, 1929, amended its application to a request for 40,000 cubic feet per second. The canal was to be built suitable for shipping, with a minimum depth of 27 feet, and was to be freely available for navigation at any time that the Dominion Government completed the locks, the land for such works being supplied by the company. On March 8, 1929, an order-in-council\* gave the Dominion Government's consent to the proposal.†

\* P.C. 422.

† Later in the year permission was given the company to take over the right to divert another 13,000 c.f.s. previously granted to the Montreal Cotton Company. In 1931 the Quebec government gave its permission to divert still another 30,000 c.f.s., but this has not yet been passed on at Ottawa.

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Twenty-eight conditions were imposed, among them being the following :

(II) The Company shall not commence the construction of the works until detailed plans of construction and all necessary information respecting the said works have been submitted to and approved by the Minister, provided that such plans and information shall be submitted within one year.

Plans were submitted by the company on July 29, 1929. These were not approved then or later; nevertheless, the company commenced construction on its expropriated property on August 7.

On May 22, 1930, Mr. Gardiner, the Progressive leader in the House of Commons, delivered a powerful attack on the legality of the order-in-council and the financial manipulations of the company. Mr. Bennett, then Leader of the Opposition, evidently struck by the exposure, declared that power should be developed

under terms and conditions that enable such power to be available to the Canadian people on the cheapest possible terms. These resources are held by us from Providence in trust, not for the few but for all; they are held in trust for the Canadian people and not for the few . . . When I contemplate what those figures meant this afternoon, my feeling of resentment gets the better of me.

Mr. Bennett, however, asked Mr. T. L. Church, a Conservative member from Toronto, and a staunch upholder of public ownership, to drop his proposal for the annulment of the company's rights, and nothing came of Mr. Gardiner's protest. The general election followed, and the new Government under Mr. Bennett, faced with the staggering difficulties of unemployment and business depression, left the Beauharnois problem alone.

There the matter would probably have rested had not the Progressive and Labour groups in the House of Commons returned to the attack on May 19 last. Obtaining permission from the House to discuss "a definite matter of urgent public importance," they launched a sweeping

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indictment of the whole Beauharnois development upon the following lines: that the order-in-council was illegal because the Dominion Government "had no authority under the Navigable Waters Act to grant the right to divert and use this water for power development, and the whole Beauharnois development is without real legal foundation and contrary to the laws and treaty obligations of Canada"; that the company had prepared plans providing for the diversion of the whole flow of the river; that it had sold bonds on the representation that it would eventually get the whole flow; that its plans of construction had not been agreed to by Government as required in the order-in-council, in spite of which a canal big enough to take the whole flow was being constructed; and that "under this development, unfortunately, a gigantic alienation of the natural resources of this country to private interests for exploitation is taking place under the monstrous financial scheme that was fully disclosed to the House last year." Mr. Gardiner, of the Progressive group, declared that

the gigantic control, on the part of small groups of financiers, of these immensely valuable resources upon which, as the Prime Minister said last year, the life, the welfare, the happiness and well-being of millions of people in the future depend . . . is a matter of the gravest concern to the people of this Dominion. And any alienation of these resources to private interests by order-in-council must be investigated . . . In my opinion, the time is coming when, if necessary, amendments to the British North America Acts must be secured in order to give this Government authority to preserve the rights of the consuming public.

The immediate result of the debate was the appointment of a committee of the House for a special investigation. Premier Bennett admitted that the canal under construction was much larger than necessary for the diversion of 40,000 c.f.s., and that no plans of construction had been approved, but he offered no comment on the demand for annulment of the charter, and expressed the view that those who had invested in good faith must be

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protected. The committee sat from June 15 to July 22, and for over a month provided headlines for the newspapers from the Atlantic to the Pacific. It examined thirty-five witnesses, and its printed proceedings and report fill almost a thousand pages. It did not by any means investigate every aspect of the problem, but on certain points its revelations were sensational. Its finding may be briefly summarised. The charge was confirmed that the work of construction was proceeding according to plans which had not received approval, and that in fact the work was not in accordance with the plans that the company had submitted. It was found that the breaching of the Hungry Bay dyke necessary for the diversion had been carried through without governmental authority, and that the plans of remedial works for the protection of navigation had not been worked out. The opinion was expressed, however, that the general scheme of the work was not inimical to the interests of navigation, and should be carried through. The committee recommended,

That the Parliament of Canada take such action as may be within its power, and without prejudicing the rights of the Province of Quebec, to procure the development of this project in such a manner as will best serve the people of Canada.

That should the rights of the Dominion and the Province of Quebec come in conflict, every effort be put forth to arrive at a satisfactory agreement, so that the project may not be imperilled by delay.

That definite action be taken to preserve the rights of navigation and the complete jurisdiction of Parliament in respect thereto.

Much, but by no means the entire story, was laid bare with regard to the financial history of the company and the very great profits already realised by the promoters. The general result was summarised as follows:—

As the situation now stands, the promoters of the Beauharnois project, involving the exploitation of a great natural resource, have been able to secure to themselves a return of all moneys advanced

by them or any of them, a profit of \$2,189,000 in cash and 1,000,000 class A common shares, which, if saleable at the market quotation of \$4 per share, would be worth \$4,000,000. This cash profit was paid out of moneys borrowed by the Beauharnois Power Corporation, Ltd., by the sale of its bonds.

To complete the project up to the point where 500,000 h.p. will be produced, they will require a further sale of bonds in a capital amount of \$46,000,000. If this were accomplished, the power project would have been constructed completely on borrowed money, and the promoters would be in control of this vast enterprise owning 1,620,000 of the class A shares out of a total issue of 1,799,995, and also the five management preferred shares, which for ten years give to the underwriters practical control of the company's affairs, and all of this without the present investment of any money.

On July 31 Premier Bennett made his statement of policy to Parliament. He strongly condemned the Beauharnois corporation for its attitude of defiance to Government. Asked why the company was allowed to proceed with construction although its plans were not ratified, he replied that there were before his Government no plans submitted within one year of the passing of the order-in-council as the order had required, and that the company took the view before the committee that all it was doing was digging a ditch on its own land. To the layman this sounds like legal chop-logic, especially as the order stated that the approval there granted might be cancelled "in case of failure by the company to observe or perform any of the provisions and conditions" which were then imposed. Mr. Bennett seemed to stand more firmly on the national interest when he declared that further diversions than those granted would render the river unnavigable in its natural bed, and that the Navigable Waters Protection Act contemplated no such interference by order-in-council and without reference to Parliament. As to restitution of moneys which investors might think had been misused, he declared that the Government had no control as it could not institute civil proceedings. Criminal prosecution was a matter for the provinces, but as the deputy Attorney-General of Quebec had been

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retained by the Beauharnois company, Mr. Bennett was "satisfied there will be none."

To deal with the situation for the moment, Mr. Bennett had two Bills passed. By these the right of the Beauharnois company to divert 53,000 c.f.s. was ratified by Parliament, and the canal and its appurtenances were declared to be "works for the general advantage of Canada." Exactly what this may mean it is hard to say, but it appears that the project will go on as a private enterprise with a re-organised management more agreeable to the Government and the banks.

There is little prospect of St. Lawrence power—one of Canada's greatest natural resources—being developed as a public enterprise. Mr. Bennett is sharply opposed to any tendency towards government ownership or management of business concerns; Quebec is hostile to public ownership; and even Ontario, with its great publicly owned hydro-electric system, seemed to many to play the game of private exploitation when the Hydro-Electric Commission contracted in 1929 to take 250,000 h.p. from the Beauharnois company at \$15 per h.p.—a price sufficient to yield a handsome profit. It was not the first purchase of power from a private company, and the Commission defended its action in a public statement. Among its supporters there has, however, been a display of considerable uneasiness, especially as the agreement seems to have come at a very opportune time in connection with the financial and political operations of the company.

Finally, it may be observed that the Beauharnois issue has once more raised the constitutional question of the respective rights of the Dominion and provincial legislatures. From the point of view of the ultimate destiny of the Dominion as a united nation, this is perhaps the most serious aspect of the whole problem. The British North America Act can be amended only by the Parliament in London, and while there is no doubt that any proposal by Canada whereby she would secure the right to amend

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her constitution would be accepted in London, there is little evidence at present of a serious discussion of the problem in the Dominion. Powerful forces will be arrayed against any change in the present situation, because of fear of interference with minority and provincial rights. Under present conditions the Imperial Parliament may be called upon to face the difficult, thankless, and dangerous task of dealing with highly contentious constitutional problems for whose settlement the Canadian people should make themselves responsible. In spite of the clear intention of the Canadian framers of the British North America Act that the Federal Government should have strong powers in dealing with matters which it might consider to be of national importance, even although they lie entirely within one province, there has been a strong tendency in recent years to magnify provincial rights at the expense of Federal jurisdiction. This has shown itself in judicial decisions and in political pressure which could not be disregarded by either Liberals or Conservatives at Ottawa, especially as Ontario and Quebec, the two most powerful provinces, took the lead in pressing provincial claims. So far as the St. Lawrence is concerned, it is admitted in general that the Dominion has the right to protect and control navigation, and that the provinces have the right to develop power; but legal questions of far-reaching importance with regard to ownership and jurisdiction are unsettled. In 1929 certain questions of principle with regard to power and navigation were submitted to the Supreme Court of Canada, but the answers were indefinite, and the order-in-council was issued in a haze of legal uncertainty. Mr. King's Government, while contending before the Supreme Court for extensive rights of jurisdiction, appeared to adopt a very much weaker attitude in dealing with the Beauharnois application. Without infringing the right of a province to power which might be developed within its borders, the Dominion Government might, it was felt by many, have retained

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prestige and leadership with regard to a question of great national importance by refusing to deal with it piecemeal, and by seeking the co-operation of Ontario and Quebec in framing a national policy. Some of the reasons for the loss of that opportunity may be suggested by the story in the preceding pages. It remains to be seen whether the Dominion Government will regain the ground lost. The specific question with regard to Dominion-provincial rights in the Beauharnois project is to go to the Supreme Court. When that decision is given it may be possible to suggest what is meant by Mr. Bennett's Act of August 1, in which the Beauharnois canal was declared to be a work "for the general advantage of Canada."

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## AUSTRALIA

### I. THE STRUGGLE TOWARDS FINANCIAL REHABILITATION

THE period under review began bravely and optimistically enough, as may be read in the confident title of the Financial Emergency Bills which were introduced in all the Parliaments to carry out the resolutions of the Premiers' Conference in June. They were entitled measures "for meeting the grave financial emergency existing in Australia, re-establishing financial stability, and restoring industrial and general prosperity." The measures for implementing the Premiers' plan have now (with some exceptions which will be described below) passed into law. But the quarter has been one of disillusionment and anxiety, and none of the nation's leaders can see the outcome of our difficulties clearly enough to inspire us with courage and enthusiasm. Much has certainly been done already. But its effect has so far been negative rather than positive; we have been bringing the drift under control rather than getting the vessel back to her course. This phase has doubtless been common to the period of recovery from all previous depressions. But this depression has been so analysed and anatomised for the sake of the elector, and its end hailed so often for his encouragement, that opinion has become peculiarly liable to impatience and disappointment. Australian opinion, moreover, is only now beginning to distinguish clearly between those causes of our troubles which are really within our own control and those which are not, and confusion of thought on this point has encouraged the man in the street to dream that once the

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great public economies were made and budgetary equilibrium came into sight, there would be immediate signs of a return to industrial and general prosperity, heralded perhaps by financial aid from overseas. But the swift development of Britain's financial crisis dispelled this latter hope ; an unhappy public began to realise at last that its sacrifices are not mere temporary adjustments to a sudden shock, but are only stages in the painful process of deflation towards a less expensive standard of life ; budgetary equilibrium itself is still far distant. As the quarter closes, opinion is clutching desperately at the straws of hope offered by Great Britain's departure from the gold standard. If the new British policy brings to a head the whole problem of international debt settlement, it may offer to Australia, with other debtor countries, some prospect of relief. The other vital question, for Australia as for the agrarian communities of Europe, is whether the economic and social structure of the community can be held together pending an improvement in markets abroad.

### *The Conversion Loan*

The Premiers' plan itself was fully dealt with in the last number of *THE ROUND TABLE*,\* and it will be sufficient here to trace the main features of the attempt to implement it. Internal debt conversion and the reduction of all adjustable government expenditure (salaries, wages, grants and pensions) by 20 per cent. were to go on side by side. The conversion was controlled by the Commonwealth, since in the financial agreement of 1927 the Commonwealth has assumed liability for all State debts, and it was carried out in virtue of a variation of that agreement, signed by all the Premiers, and to be embodied in legislation by all seven Parliaments. The States have also had to pass legislation empowering trustees to convert securities held on trust. The amount to be converted was £556 million ; securities on conversion were to be allocated among new

\* See *THE ROUND TABLE*, No. 84, September 1931, pp. 895-903.

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securities whose dates of maturity ranged approximately between 7 and 30 years, at an interest rate representing on the average a reduction of 22½ per cent.; holders were urged to make definite application for the conversion of their holdings, but the Act provided that, unless actual dissent was signified, conversion would be automatic. The official appeal to bondholders was based solely on the financial difficulties of the Governments, and on the need for patriotic sacrifice from every section of the community, and the Act provided that holders who dissented should receive new securities maturing at the same date and bearing the same rate of interest as their existing securities. The result was eminently satisfactory; some £490 million was converted on application, and some £48½ million more by effluxion of time. This made up 97 per cent. of the total holdings. The holders of only the remaining 3 per cent. (£17½ million) dissented. The country actually had the welcome, though of late unhappily rare, experience of being cited in London as an example to be followed.

There remained the problem of what was to be done with the unconverted £17½ million. The treatment of dissentients had caused acute controversy at the Premiers' Conference in June, and the problem had been left unresolved at the instance of the leaders of the Opposition in the Commonwealth Parliament, so that no penal alternative might be threatened against dissentients, to mar the psychological effect of a voluntary appeal. At the same time, the Premiers' Conference made no attempt to conceal its determination that the sacrifice must be a common one, and that some way would have to be found of bringing in dissentients. "Although it is not specifically stated in this resolution," said Mr. Theodore, "it is agreed implicitly, and without any equivocation, that if people do not convert they cannot be allowed to go free of making a contribution to the national sacrifice." It was only on this express understanding that Mr. Lang agreed to the Premiers' plan. In the event, the vagueness of the future probably had a

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greater coercive effect on bondholders than a specific threat would have done, and no holder supposed for a moment that if he dissented the Government would fulfil his contract to the letter. Penal taxation was freely discussed during the Conference ; but a very considerable proportion of the dissentients is understood to have been made up of holders whose securities mature either this year or next, and who are concerned with the availability of their capital to meet other needs rather than with any interest they may gain in the meantime. There was, however, no promise to pay off the unconverted bonds, as there was in the Goschen conversion of 1889. But the Premiers' Conference was faced at the beginning of September with the sheer impossibility of finding an additional £17 million in the near future to pay off the unconverted bonds as they mature. It fell back on compulsion and decided that—except in cases of proved personal hardship, for which it was thought that ample provision could be made out of sinking funds—the dissentients should have their holdings converted compulsorily by Act of the Commonwealth Parliament, which may require some complicated legal adjustment. The step must be profoundly regretted. It must to some extent weaken the good effect caused by the voluntary character of the main effort. Nor is the small amount involved any real justification where the principle of repudiation is at stake. The only point that can be taken in support of compulsion is, that the consent of the holders of the other 97 per cent. gives the same kind of warrant for extending like terms to the remainder, as is given in bankruptcy proceedings when the court makes an order based on the consent of a large majority of the creditors.

### *Reductions in Public Expenditure*

The reductions in adjustable expenditure were treated (except in New South Wales, which is dealt with elsewhere in this article) largely as a simple matter of arithmetic, and

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while grants were reduced by an automatic 20 per cent., salaries were reduced on a scale more or less steeply graduated after the fashion of income tax rates. In the long run, however, indiscriminate economy of this sort may well turn out badly. If the reductions were to be temporary only, they would produce relatively little effect. But on the assumption that the country is now firmly set towards a deflation which will reduce general standards to levels comparable with pre-war days, a more scientific revision of expenditure seems called for. The whole Australian people, individuals and Governments alike, has indulged in many extravagances in the boom years, and the path of wisdom would now be to revise our activities in the light of what it is really worth while spending money on. Some things we have been doing we might now usefully eliminate altogether. In some directions, on the other hand, any reduction at all is folly, not to be justified even by reference to the plausible slogan "equality of sacrifice." It is a common error at the moment to think in terms of the persons on whom sacrifices are being imposed rather than of the work to be done, and the general sense of urgency obscures the long-term considerations, such as the extent to which salaries have in the past shared in the recent prosperity, which are essential to real equality.

So obsessing has the idea of "equality of sacrifice" become that the Parliaments of three States (New South Wales, Victoria and Western Australia) have included the Supreme Court judges in their scheme of salary reductions, on the same terms as members of the public service. The importance of preserving the independence of the judiciary was not so much overlooked as outweighed—with the support, it must be admitted, of a considerable body of public opinion—by the desire that no income should escape the general reductions. Thus, to reduce salaries, which have for the most part remained stationary for anything up to fifty years, may be both inequitable and even unwise, but is at least consonant with the spirit of the

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time. The strongest objection to this breach of British constitutional tradition—and it has been vigorously expressed—is that a modern democracy needs, not less but more than ever, a judiciary which has nothing to fear, or hope, from Parliament. It is understood that in all the States the judges have themselves offered contributions from their salaries; of the justices of the High Court, interference with whose salaries is prohibited by the constitution, some have offered to accept a reduced salary, others to forgo their travelling allowances.

Only one of the Australian Parliaments (in Queensland) has ventured, in making provision for reductions of expenditure, to do what the Imperial Parliament has now done, to substitute reduction by Order in Council for direct parliamentary regulation.

The reduction in wages and pensions has earned, as was recorded in the last number of *THE ROUND TABLE*,\* the vigorous disapproval of the Labour party organisation. The Labour Governments in South Australia, Victoria and the Commonwealth had to break down opposition not only in the parliamentary caucus but in the local and federal executives of the party organisation. Mr. Hill in Adelaide, Mr. Hogan in Melbourne, and Mr. Scullin and Mr. Theodore in Canberra were strong enough to proceed with the plan, though the malcontents in Adelaide succeeded eventually in carrying a motion for the expulsion from the party of all members who had supported it. A special conference of the federal executive of the party organisation (six members from each State) was called at the end of August to consider this proposal, but rejected it by 22 votes to 13. In June, the same body had declared its hostility to this part of the plan, but had recognised that, to bring about the downfall of the Labour Governments, would be disastrous to the party. The desirability of averting a split in the party was just as great at the end of August, indeed more so, as several elections are beginning

\* See *THE ROUND TABLE*, No. 84, September 1931, p. 903.

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to draw near. It was, therefore, not surprising that a compromise was again reached, though the South Australian branch seems determined to persist in its original policy. The federal executive again declared that reductions in wages, pensions and social services cannot be accepted as any part of Labour's policy, since they violate the substance of the ideals and principles for which the Labour movement stands ; and it instructed Labour members, both Federal and State, that any further reductions of the kind must be resisted. This may perhaps be regarded as merely face-saving. The party organisation is not likely, at a time like the present, to risk the downfall of a Labour Government. The real significance of the resolutions passed at the party conference is rather to be found in the re-affirmation that the whole policy of deflation is wrong, and that the essential nature of the crisis is monetary and can be met only by a policy of monetary and banking reform. "Plenty of meals but no tickets," is one Labour journal's summary of the whole position. The left wing in the federal parliamentary caucus has begun to press again for the fiduciary note issue to which the party had pledged itself earlier in the year.

### *Reduction of Private Interest Rates*

One other part of the Premiers' plan calls for mention—the reduction of private interest rates or, more precisely, reduction of interest on mortgages and on bank deposits and advances. Legislation to secure these objects has been opposed so tenaciously by the Legislative Council in Victoria, that the Victorian Financial Emergency Bill was delayed till nearly the end of September. The report of the Premiers' Conference had left the matter as follows :—

Concurrently with the reduction of bond interest must go a reduction in private interest. This is mainly a matter for the banks, who are co-operating to that end. Reductions of interest are being arranged between the Commonwealth Bank, the trading banks, and the savings banks, which will result in the rapid reduction in the interest on money required for trade and industry. This reduction

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of interest will be supplemented by legislation giving relief to mortgagors. This legislation forms part of the plan.

The real ground taken by the Victorian Legislative Council was that, while recognising the necessity for the reduction of private interest, it thought that such reduction would inevitably be made at once in all proper cases as a result of discussion between debtor and creditor, and, in the long run, by the operation of economic forces ; that legislative interference with private contracts was strongly to be deprecated ; and that in any case the legislation actually proposed was clumsy and unsatisfactory. The Government, in reply, drew a distinction between bank rates and mortgage rates. Its defence of the legislation as to bank rates was that the trading banks in Victoria seemed to be holding back in part from the reductions contemplated by the Conference. When they offered a reduction of one per cent. in rates for advances by October, a compromise was adopted under which the banks were included in the measure, but the provisions were to have no operation until proclaimed, with the consent of both Houses. As to mortgage rates, the Government's defence was that it was pledged to implement the plan "one and indivisible," and that legislation for the relief of mortgagors formed part of the plan. It was, however, clear that the draft mortgage legislation had been adopted almost without discussion at the Conference, and that the legal difficulties involved had scarcely been appreciated. Indeed a certain inattention to the legal aspect of the exceedingly complicated operations involved in the proceedings was a marked feature of the whole Conference. This was due partly to haste, and partly to the fact that, though efficient legal advice was available, its value was reduced to a minimum by the failure of the Conference, till a very late stage, to agree on the more important points of policy. The Victorian Legislative Council's stand, unpopular as it has been, has probably done the community a service, since it has directed close attention to the measures adopted. The legislation has, in some

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States (New South Wales, Victoria, Tasmania and Western Australia) proceeded by way of automatic reduction of interest rates, unless the mortgagee can satisfy a tribunal that, having regard to the relative position of borrower and lender, reduction is inequitable; in the other States (Queensland and South Australia) the onus is on the mortgagor to apply for a reduction, which he is entitled to get unless the mortgagee can show that it is inequitable. The scheme of the legislation provides generally for a reduction of 22½ per cent. in interest, but with a minimum interest rate of 5 per cent.

### *The Budget Position and General Rehabilitation*

Ever since Sir Otto Niemeyer's visit, the real centre of political interest has been in the Premiers' Conference and the Loan Council (at present practically indistinguishable in personnel and identical in function) rather than in any of the Parliaments. In the quarter under review, their principal function has been the "policing" of the plan. They met early in August to consider, partly a request from New South Wales for urgent financial assistance, and partly the budget plans for the financial year 1931-32 in the light of events since June. New South Wales was accorded the advance required in order to pay civil service salaries, but only on condition that Mr. Lang came into line in implementing the plan. The possibilities of budgetary equilibrium were carefully examined, and the Loan Council before it adjourned took the significant step of appointing a standing committee of under-treasurers and economists to examine continuously, and report upon, the budgetary position of each State, and its conformity with obligations under the plan. At the same time a similar organisation was adumbrated for the Premiers' Conference in the form of a permanent secretariat. Its first task was to gather information and report to a subsequent meeting upon action to relieve unemployment. Here were two important processes at work—not merely the first definite step in the

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transformation of the Premiers' Conference from a gathering into an institution, but a definite step also in facing the long-term problem of industrial rehabilitation.

The Premiers and Treasurers reassembled at the beginning of September to discuss the reports of the two committees. The budgetary position turned out to be disquieting. In June, allowing for such shrinkage of revenue as then seemed likely, the year 1931-32 was planned to produce a total deficit of only £15 million, which the banks agreed to finance. In September, it was clear that the deficit would probably amount in all to about £18 million ; the New South Wales figures were only vague. Conferences with the bankers followed, but the banks would not undertake to advance more than £16 million for the year, leaving the Governments to make up the other £2 million either by fresh taxation or by fresh economies. As to unemployment and rehabilitation, the secretariat had had totally inadequate time to make a thorough analysis, but reported in grave terms. Employment cannot in the long run be increased, it urged, unless the country can export at world prices ; it cannot even be kept at the present level unless the financial resources of the country are used to their limit to keep the wheat grower in production, to maintain the existing volume of employment on public works, and to provide or stimulate enough additional employment (*e.g.*, on gold mining, paper pulp and fisheries) to set moving the gradual revival of business and enterprise. The secretariat's report therefore contemplated both a long-term policy of reduction of costs, a review especially of all forms of government assistance to industry, and an immediate policy of stop-gap measures in order to maintain the country's economic and social structure for the time being. The report caused a good deal of public disappointment ; to the unthinking, because it was so grave in its outlook ; to the more thoughtful, because its immediate recommendations seemed to be to keep on the old disastrous methods. The banks, after anxious conferences, eventually agreed with

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evident reluctance to grant still further credits, not indeed to the amount of the £16½ million, which the secretariat thought would be necessary, but at any rate to the extent of £3 million to provide a bonus of 4½d. a bushel on wheat of the 1931-32 season, and £4,250,000 for the first half of the financial year for public works already in progress. But, of course, nobody really expects a permanent solution along these lines, or from any action that can be taken within Australia herself. Without a rise in world prices the country is facing not merely a measure of default abroad, but collapse at home. In such circumstances the almost feverish interest with which the development of Great Britain's new policy is being followed, and its result canvassed, will be readily understood.

## II. MR. LANG AND NEW SOUTH WALES

FROM its origin in 1891, the Australian Labour party has been strongest in New South Wales, and more particularly in Sydney. It might, therefore, have been predicted that in Sydney the party would produce its finest flower, its most logical and uncompromising leader. And, as Australians are fond of ideals but impatient of technique, Mr. John Thomas Lang only adorns the national type in showing himself more hearty in his zeal for the under dog than skilful in advancing his interests.

Since 1917 Australian Labour has become conscious of an affinity between the political regulation of trade and industry, slowly evolved as *socialisme sans doctrines* during the party's youth, and the economic philosophy of the Russian communists. Some of the inner group in the Sydney Trades and Labour Council have visited Moscow, and evidently share its hopes of a world-wide reconstruction of society. Possibly Russian example has confirmed the New South Wales branch of the Australian Labour party in its zeal for strict discipline. Certainly the distinguishing

## Mr. Lang and New South Wales

mark of Mr. Lang's leadership in the present Parliament, as compared with his 1925-27 term of office, is to be found in the caucus of 55 supporters who, under pressure from the party machine outside, support with steady docility the policies propounded by the Premier. At times there are private mutterings of revolt, notably from Labour members for country constituencies. But there is no revolt. The division bells break in upon every Opposition speech which threatens to damage the Government's prestige, and at their call the caucus files in full force before the tellers.

To what end? In name the Bills put forward by Mr. Lang differ little from those of earlier years or of other State Houses to-day. Mr. Lang's proposals for a drastic extension of industrial arbitration, for confiscatory taxation of all but the most moderate incomes, and for reduction of salaries in the public service, suggest that he and his associates see somewhere in the near future the communistic objective of the classless society. Instead of equal chances to rise and "fair and reasonable" treatment for the less lucky, Labour now seeks to dispense altogether with middle-class leadership.

Mr. Lang's election programme in October 1930 was, it will be remembered,\* little more than an assertion of Labour's will to maintain governmental spending. Under his premiership and treasurership, the maintenance of the standard of living was to be hampered neither by the Premiers' agreement of August 1930, nor by the Loan Council. It had been evident, however, even before his election, that neither London nor New York would keep up the flow of loan money that this programme presupposed. Mr. Lang was, therefore, thrown back on local taxable fields which the Federal Government was already denuding, and upon the lending capacity of Australian investors and banks. In December 1930, to the dismay of his followers, he raised his predecessor's unemployment relief tax on wages and incomes from 3d. in the pound to 1s. Even so it

\* See *THE ROUND TABLE*, No. 82, March 1931, pp. 435-441.

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was hardly adequate for the growing burden of the "dole." On June 15, despite all financial difficulties, the relief ration scales were increased by 25 per cent. Railway freights and fares, income taxation and every source of revenue continued to shrink, but Mr. Lang's commitments to powerful electoral groups did not allow him to check expenditure.

As he proclaims that the way out of the depression is to maintain the spending power of the public, he has been forced by the inadequacy of ordinary revenue to turn to any supplies within his reach. But such rough and ready methods as withholding from government creditors the money he needs for his civil servants and people "on the dole," have involved, either as a result of sheer rashness, or because incidentally he desired to destroy confidence in middle-class institutions, the closing for four months of the New South Wales Government Savings Bank. This bank, like all Australian savings banks, had been paying out cash at a steady rate ever since depression and unemployment set in. But in February the nerves of the depositing public were badly shaken by repudiation proposals\* and by unchallenged press statements that the Government was not paying the interest that it owed to the commissioners. Withdrawals at once grew disproportionately greater than those from other savings banks, culminating in a violent "run" on the bank in April. On April 21 Mr. Lang asked the Commonwealth Bank board, who control the Commonwealth Savings Bank, to take over his bank. The depositors next day withdrew a million and a half pounds, and on April 23 the bank suspended payment with its cash reserves down to £214,085, although it had £7,218,469 "at call at the New South Wales Treasury," and £49,552,202 in securities, mainly of the New South Wales Government. Negotiations with the Commonwealth Bank went on for three months but eventually collapsed and, under pressure, Mr. Lang has reopened his savings bank under a

\* See *THE ROUND TABLE*, No. 83, June 1931, p. 664.

## Mr. Lang and New South Wales

new Act, a new board of trustees and a new guarantee against political interference. Though empowered to borrow £10,000,000 on debentures, the new board has still to find enough cash to set the cycle of deposit and investment going again. Otherwise the depositors' only hope still lies in the absorption and liquidation of the old bank's assets by the Commonwealth Savings Bank.

Whenever he has sought accommodation through the Commonwealth Bank and the private trading banks, the New South Wales Treasurer has been met by the need of accepting the control of the Commonwealth Government and the Loan Council. Before Mr. Lang's accession to office the New South Wales Government's bankers, the Bank of New South Wales and the Commercial Banking Company of Sydney, had stipulated that open overdrafts would not be granted, and that ways and means advances would be made only against definite securities, such as Commonwealth Treasury Bills. Mr. Lang, finding his credit balances with his own bankers on the wane, asked the acting Commonwealth Treasurer, Mr. J. A. Lyons, to approach the trading banks throughout the Commonwealth for "temporary accommodation." The banks, however, saw no good reason why they should aid and abet Mr. Lang in what seemed an attempt to evade the control of the Loan Council. Through the Chairman of the Commonwealth Bank board and the Chairman of the Loan Council, they notified Mr. Lang that all borrowing by governments, whether in the form of public loans, Treasury Bills or overdrafts, should be controlled by the Loan Council in accordance with the resolutions of the Melbourne Conference in August 1930.

Mr. Lang next sought to escape out of the net of unified financial control through an apparent gap in the 1927 financial agreement on State debts. The Commonwealth, by the terms of that agreement, assumed responsibility for the payment of interest on the State debts. Mr. Lang, prompted by his Attorney-General, set out to exploit the position by refraining from paying the Commonwealth.

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Thus, surely, he thought, he would be able to use the interest money as "purchasing power" for his civil servants and unemployed. Who was to stop him? Would dog eat dog, and one Labour Government proceed to Federal execution against another?

Mr. Lang's default began on April 1. As he had calculated, the Commonwealth Government at once found in London £800,000 to meet the interest that should have been paid that day, plus exchange. Part of this sum, £243,000, the Commonwealth then recovered by stopping contributions from Federal revenue due to New South Wales under the 1927 financial agreement. For the balance the Commonwealth and the other five States issued a writ in the High Court of Australia on May 13. Further defaults by New South Wales, new payments by the Commonwealth, and writs in the High Court followed each other rapidly during the next few weeks, until the rest of Australia had paid to British and American bondholders £1,673,000 on Mr. Lang's account. The actions have not yet come on for trial, but the burden that Mr. Lang had cast on Australian shoulders generally provoked in April the long expected, and often announced, refusal of the Commonwealth Bank to finance further short-term borrowing, as a result of which the Premiers' Conference met last June and the first all-round attempt was made to secure balanced budgets. Mr. Lang's part in shaping the Conference plan was surly and contemptuous. The enemies who had so unreasonably thwarted his own plan were now, he claimed, slowly accepting it. He heatedly denied the contention in sub-committee of the experts, whose report formed the basis of the negotiations, that on New South Wales lay a special duty of retrenchment, in that she had maintained an exceptionally lavish standard of government. By furnishing on the last day of the experts' deliberations the barest outline of the contents of his not yet presented budget he had effectively cramped their analytical zeal. The Commonwealth and the less wealthy States

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announced that they would faithfully cut down wages and salary rates by a fifth. By sheer effrontery Mr. Lang made use of the free hand left to each Treasurer in making this reduction to turn the whole policy of economy into a *reductio ad absurdum*. He proclaimed that he would spare the purchasing power of the people and look to the higher incomes for almost all the additional savings that he was going to make. The salaries of government servants, he announced, would be reduced and £500 a year would be the maximum.

This threat, however, was not immediately acted upon. On June 26 the Premier rushed through the Legislative Assembly an emergency taxation measure which, he professed, would raise £16,000,000 during the financial year 1931-32. Its schedules proposed fresh taxes on wages and salaries rising from 1s. in the pound on weekly incomes of more than four and less than five pounds, up to 5s. in the pound on weekly incomes of ten pounds and over. Similar levies were to be made on "company incomes" and personal incomes other than those derived from employment. "By taking from those in receipt of regular incomes who have a surplus, and employing the money in reducing our huge army of unemployed," said the Premier, "we shall achieve a position of true equality of hardship, but out of it we will emerge a solvent State whose feet are planted firmly on the road back to prosperity." "On the way to Sovietism, you mean!" interjected an Opposition member. "And a good deal better then than now!" retorted a Minister of the Crown.

To the general relief, the Legislative Council rejected without hesitation this spendthrift Bill. This again brought the Premier into direct conflict with the Governor.\* When the defeat of the Bill was imminent, Sir Philip Game had attempted to avert a demand for the "swamping" of the Council by suggesting a round table conference of all

\* See *THE ROUND TABLE*, No. 82, March 1931, pp. 440-1; No. 83, June 1931, p. 666.

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parties upon the lines proposed by His Majesty in the Irish crisis of 1914. The Government spurned this proposal, and the Premier requested Sir Philip Game to nominate a large number of new Councillors. The Governor refused. Mr. Lang's view is that it is a Governor's duty to accept his Ministers' advice in all matters, and that Sir Philip Game's conduct amounted to a denial of self-government to New South Wales. Accordingly the Premier referred the question at issue to the Dominions Office. The Secretary of State again refused to interfere, discreetly hinting that the matter seemed eminently one to be settled by the people of New South Wales. The Governor's view is that Mr. Lang has no mandate from the people of the State to pursue his present policy and does not, in fact, command popular support, and that his own duty as Governor is to ensure, so far as in him lies, that the forms of representative government are not used to flout the people's will. At one stage, indeed, the Governor even considered the possibility of exercising his legal power to dismiss Mr. Lang and dissolve Parliament, but he decided that such a step would be bound to provoke a popular outcry, and that it would be best to throw on to the Premier the onus of appealing to the people if he so desired. Mr. Lang has, no doubt for the best of reasons, shown no desire to go to the country. It is too early yet to estimate the full significance of the Governor's attitude in the present crisis, and it is always arguable that in the long run it is better to allow the whole weight of responsibility to fall on an electorate for the results of its own choice. But there can be no doubt that, for the moment, the Governor has vindicated his position under the constitution, and that his firmness has saved the State from total chaos.

Thwarted by both Legislative Council and Governor, Mr. Lang was nearly at the end of his tether. There would be barely enough for workers' wages, and nothing for the "blackcoats'" salaries when the civil service came to be paid on August 6. This was a bleak outlook for a

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Premier who had promised over and over again a restitution to the service of even the  $8\frac{1}{2}$  per cent. that his cheese-paring predecessors had taken from it. As August 6 drew near, he hurled another parliamentary thunderbolt, the promised measure under which the salaries of Ministers, judges, members of Parliament and all public servants were not to exceed a maximum of £500 a year, and reducing all salaries between £260 and £580 a year by 20 per cent.

The critics of the measure had little difficulty in convincing the Legislative Council that Mr. Lang would do better to effect his savings on similar lines to those on which the Commonwealth and the other States had carried out their economies. Whereupon the Council amended the Bill, and Mr. Lang, in his hurry to obtain Commonwealth Treasury Bills from the Loan Council wherewith to pay his civil service, introduced a new Bill on the lines suggested by the Legislative Council. And so to Melbourne where, the Loan Council having relented, he got his Treasury Bills, and the Commonwealth Bank duly discounted them. Then, five anxious days late, the government servants received their pay.

He is a great optimist, however, who thinks that Mr. Lang has been brought to heel by the Loan Council, or that his budget for 1931-32, hurriedly presented on the eve of yet another session of the Loan Council, conforms to the spirit of the June Conference plan. It shows an estimated deficit of £8,300,000. This, Mr. Lang explained, would be reduced to £5,410,000 by "economies not yet worked out in detail." His published estimates bristle with items which cast doubt upon this pious hope. Incredible estimates of increased revenue, deliberate payments of wages and salaries in excess of those prevailing elsewhere, a determined refusal to reduce the pay of railwaymen and tramwaymen to the federal basic wage, these things hardly looked like a "genuine effort to reduce controllable expenditure."

So on he fares. If Mr. Lang and his very active associ-

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ates at the Trades Hall are working for a communistic reconstruction, they certainly are doing so with a minimum of disturbance to the outward peace of society. Under the Lang régime, the New South Wales police, an admirable and impressive force, have a completely free hand in dealing with the attempts of professed Communists to aggravate the class-war by street rioting. The offers of a "New Guard" of "parlour militarists" to come to the assistance of the police in the event of disorder seem at the moment unnecessary, if not provocative. But there are subtler ways of altering the face of society than by blacking its eye!

### III. MR. THEODORE AND THE "MUNGANA" AFFAIR

MOST Australians are heartily glad to have the Mungana affair, with all its disturbing effects, settled at last. It will be remembered that in July 1930\*, Mr. Theodore resigned the office of Commonwealth Treasurer in consequence of the finding of Mr. Justice Campbell, a retired Supreme Court judge from New South Wales, and appointed a Royal Commissioner by the Queensland Government, that, along with others, Mr. Theodore, then Premier of Queensland, had been guilty of dishonesty in connection with the purchase by the Queensland Government of certain mining enterprises at Mungana. Mr. Theodore, who had not given evidence before the Commission, demanded that the Queensland Government should, by bringing proceedings against him, give him an opportunity of "confronting his accusers." After removing some legal difficulties, the Queensland Government brought a civil action against the four persons concerned (one of them another ex-Premier of Queensland, Mr. McCormack) claiming damages in respect of a conspiracy to procure by unlawful means the purchase of the Mungana mines by the Government at a price of £40,000, when they were worth only £10,000 at best, or, in the

\* See *THE ROUND TABLE*, No. 81, December 1930, pp. 185-7.

## Mr. Theodore and the "Mungana" Affair

alternative, in respect of a fraudulent sale by the defendants to the Crown. The case was heard before the Chief Justice, Sir James Blair, and a jury of four, and resulted in a unanimous verdict for all the defendants on both counts, the jury answering a series of twenty-five questions unequivocally in their favour.

The result is a happy one, so far as the purity of Australian political life and the public reputation of the country are concerned. The only regret that can be felt is that Mr. Theodore did not in the end "confront his accusers," in the popular sense, by going into the witness box. The verdict that the sworn advisers of the Crown were not guilty of any dishonesty or corruption is so satisfactory that it is perhaps a pity that it was not based on the fullest and most searching examination of all the evidence which could possibly have been obtained. The whole incident will probably have a beneficial effect on Australian parliamentary life as a whole. In a country where the population is small, where political feeling runs very high, and where government activities are so far-reaching, members of Parliament will have to consider more carefully with what industries they can with propriety allow themselves to be associated. It is natural, but regrettable, that Mr. Theodore and the Labour party should treat the jury's verdict as the triumphant exposure of what he himself has denounced all along as a campaign of political calumny and persecution on the part of the Nationalists. This aspect of the case will doubtless embitter the State elections in Queensland next year. But the defendants in the Mungana action undoubtedly had a case to answer, and the rumours of irregularities in connection with the purchase of the mines had been so persistent and damaging that it was the clear duty of the Queensland Government to have them fully investigated.

Australia.

October 1931.

## SOUTH AFRICA

### I. SOUTH AFRICA AND THE GOLD STANDARD

VERY shortly after it became known that Great Britain had abandoned the gold standard, it was announced on behalf of the South African Government that this country would not follow her example, but would remain on it. This intention has been reaffirmed on several occasions by members of the Cabinet in the strongest terms. The underlying motive inducing the Government to take this decision was probably partly political, for the present crisis provides a magnificent opportunity for demonstrating that South Africa is no mere economic satellite of Great Britain, but a fully fledged planet in the world system. In this case, however, economics and politics appear to be for once allied, and the general consensus of economic opinion in this country appears strongly to support the Government's action. Thanks to its gold mines, this country, as a whole, is less seriously affected by the depression than perhaps any other in the world; for although those sections of the community which depend upon export markets are suffering severely, the gold mines provide the majority of the population, directly and indirectly, with an assured market for their goods and services, and consequently with incomes which have hitherto shown comparatively little decline. White unemployment is estimated at no more than 20,000 to 30,000 out of a white population of some 1,800,000, and while deficits will be shown this year on the budgets of the central Government,

## South Africa and the Gold Standard

the four provincial councils, and the State railways, the present burden of taxation, at any rate upon the moderately well-to-do, is comparatively light, and this section of the population could if necessary bear a considerable increase in direct taxation without serious hardship.

From the point of view of the balance of trade the position is also strong. The heavy declines in the values of farm produce, diamonds, and base minerals exported has been more than offset by reductions in imports (caused naturally and without recourse to panic measures such as import prohibitions), with the result that for the twelve months ending August, 1931, the surplus of visible exports over visible imports was £18,800,000 (South African), compared with an average during recent years of about £16,000,000 (S.A.).

The Union of South Africa is therefore under no direct compulsion to abandon the *terra firma* of the gold standard, and to adopt in exchange a standard based upon the economic and financial conditions of another country, and upon the politics and policies of an overseas government of uncertain composition, over whose actions she will have no kind of control. If South Africa were to exchange the gold standard for the English sterling standard, any tendency towards inflation in Great Britain would compel her to choose between either following blindly the policy of that country, or returning to gold, or maintaining a paper standard of her own, based neither upon sterling nor upon gold, but hovering in the void somewhere in between.

Another point which is frequently made is that, since not merely the prosperity but the very existence of South Africa depends upon the continued use of gold as a basis for currency by the great nations of the world, any step by South Africa which might, in however small degree, encourage the abandonment of this use of gold would be a step in the direction of national suicide.

Finally, the Government stands to reap a very substantial financial benefit from remaining on the gold standard.

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The interest charges on that part of the national debt which is held in Great Britain will be considerably reduced, the saving to the Government at the present rate of exchange being estimated at about £1,500,000 (S.A.) per annum. This saving will incidentally reduce still further the net surplus of invisible imports, already reduced appreciably by decreased payments for freight on imports and decreased dividends on diamond shares, to probably not much more than £20,000,000 (S.A.) per annum, compared with an estimated total of about £23,000,000 (S.A.) in 1929. The net "adverse" trade balance to be filled by foreign borrowings of new capital for the coming year should be less than £2,000,000 (S.A.), as compared with average foreign borrowings of about £7,000,000 (S.A.) during recent years.

While, however, the Government's decision is supported by the bulk of informed opinion, it cannot be denied that the break with sterling has caused several serious difficulties, some of which have yet to be overcome. This country has hitherto had no real foreign exchange dealings, rates having been determined by the simple method of adopting the latest rate quoted from London, modified as necessary by the current South African-London rate. The latter has for the past six years been almost absolutely fixed, with the English pound at a slight premium over the South African pound, due to the need for recouping the Reserve Bank for its expenses in shipping the output of the gold mines to London either in the form of bullion or of specie. Prior to the return to gold in 1925, when both Great Britain and South Africa were off the gold standard, the rates on London were fixed from time to time by agreement between the banks according to the supply and demand for exchange as shown by the alterations in their London balances. Now for the first time it has become impossible for the banks to determine the exchange rates on London with reference either to the cost of shipping gold or to the state of their London balances. South Africa has become

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an independent gold standard country among her peers, and is painfully learning to adapt herself to the responsibilities of her new status. In the absence of any existing financial machinery to deal with this unprecedented situation, there was at first almost complete confusion, which lasted until about the end of September, when, for the first time since the break, the South African-London rates were brought into approximate accord with the New York-London rates. As soon as this occurred it became possible for arrangements to be made to open up direct exchanges with other gold standard countries. The banks can now quote direct rates with New York, with the South African pound only very slightly below gold parity. Direct exchanges with Paris, Amsterdam, Rome, and other gold standard centres are now being arranged, and quotations on these centres will be possible shortly. These rates will, of course, remain practically stable, and will facilitate trade with these countries, while the frequent fluctuations of the rate on London naturally impose considerable difficulties on our much larger trade with Great Britain, especially as this country has as yet no forward exchange market.

On the whole, it is probable that the worst of the confusion is now over. But another and even more serious difficulty has arisen. It would appear that many South Africans believe that sooner or later the English pound will return to parity, or at least be stabilised at a figure considerably higher than that ruling at present, while there appears to be a growing expectation that South Africa herself will be forced off the gold standard in the near future. As soon, therefore, as English sterling was quoted by the banks at a substantial discount, a very large demand arose for transfers to London from people who desired to take advantage of the exchange rates to pay off debts, to provide for future payments, to obtain bargains on the London Stock Exchange, or even merely to obtain balances in London as a pure speculation. On the other

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hand, persons owning funds in England are tending to refrain from bringing them out in the hope that an improvement in the exchange will save them at least part of their loss. The banks have therefore found themselves selling large quantities of English sterling and buying very little. At this time of year the London balances of the commercial banks are about at their lowest ebb ; these banks have therefore been saved any serious loss in the depreciation of the value of their London balances, but are, on the other hand, unable to meet any heavy drain of exchange. They have therefore been compelled to obtain supplies of foreign exchange from the Reserve Bank, which, on September 18, owned bills in London to the value of £6,427,000 (English). By October 9 the Reserve Bank's holding of bills in London, which forms the main foreign exchange reserve of the country, had been reduced to £765,000, though, on the other hand, gold to the value of £2,306,000 had been accumulated overseas, in addition to a normal amount of £5,730,000 held in the Union. The Bank's total reserve in London had therefore been reduced by £3,356,000, or more than half. If the demand for foreign exchange remains insatiable, this reserve may be entirely exhausted, and unless credits can be arranged overseas, the Reserve Bank may be compelled to refuse to sell more exchange. Gold would then be withdrawn, and as the Reserve Bank's holding within the Union already shows little margin over its legal requirements, the Government would be compelled either to suspend the Act or to authorise the Bank to refuse gold. The suspension of the Act would permit of the export of a further £5,500,000 (S.A.) of gold, but it is not likely that the Government would allow the legal reserve to be entirely drained before abandoning the gold standard.

The banks have been endeavouring to check the demand for exchange by attempting to restrict sales to "normal trade and personal requirements," but this policy has met with only partial success, and on October 10 a statement

## South Africa and the Gold Standard

was issued by the Minister for Finance informing the public that this policy of restriction had his full support, and that all the resources of the State would be employed, if necessary, to keep the country on a gold basis.\* While, however, restriction may check the drain to some extent, it cannot prevent it altogether so long as the public can withdraw gold from the Reserve Bank in Pretoria and ship it; while restrictions on the withdrawal and export of gold will, of course, be tantamount to admitting that the country is off the gold standard. It is still doubtful if the country will be able to avoid this step.

Even if the reserves of foreign exchange are able to stand the strain of the abnormal demand, the effect of the depletion of the resources of the commercial banks will probably be to compel these banks to restrict advances, bringing about a renewal of the financial stringency of two years ago, and ultimately a reconstitution of the depleted foreign balances by means of a further reduction in imports. If, of course, the present speculative demand for English sterling should be succeeded by a corresponding movement in the opposite direction, the reason for such a curtailment of imports would disappear.

Should this immediate exchange difficulty be overcome, there will remain the difficulty of import and export prices. Prices of raw materials in England have already risen almost sufficiently to offset the fall in the exchange value of the English pound. But the gold prices received by South African exporters of such commodities as eggs, fruit and dairy produce are likely to remain lower for some considerable time, while local manufacturers are already

\* On October 29—since this article left South Africa—the Union Government announced a 10 per cent. export bounty, and a primage duty of 5 per cent. on imports, and latterly (see *The Times*, November 11, p. 19) has been making enquiries in various countries with a view to raising a loan of £10 millions for the support of the South African pound. On November 12 the South African Bank rate was raised from 5 to 6 per cent., and the next day the Transvaal Chamber of Mines (with one dissentient) passed a resolution in favour of leaving the gold standard and linking the currency to sterling.

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preparing to complain of increased competition from English imports. Pressure is therefore being brought to bear on the Government from two sides, and while at present it seems determined to resist this pressure, it is impossible to say whether this resistance will be continued indefinitely.

Finally, if the English pound remains depreciated, but not restored to gold at a lower parity, the problem will sooner or later arise of obtaining foreign loans. Such loans could not well be raised in London, for, if the English pound should subsequently return to par, the South African borrower of English sterling would find himself owing £100 (S.A.) for every, say, £80 (S.A.) borrowed, while an English lender of South African currency would find himself owed only, say, £80 (English) for every £100 (English) lent. Whether this country could obtain its requirements of new capital in New York, Paris, or Amsterdam remains to be seen.

### *Postscript*

Since this article was written the news has been received that Southern and Northern Rhodesia have left the gold standard. This development will add greatly to the Union's difficulties, for Rhodesia is the chief, and indeed almost the only, export market for Union manufactures, while, thanks to the Customs Union, the commercial relations between the two countries have been most intimate for many years. Southern Rhodesia uses Union silver coin, while Imperial silver circulates freely in both countries. Bank notes issued in Southern Rhodesia have hitherto been freely current in South-West Africa. The sudden disruption of these intimate ties cannot but cause much confusion and probably serious losses.

## The Provincial Question

### II. THE PROVINCIAL QUESTION

IN the last number of *THE ROUND TABLE*\* reference was made to the re-emergence of the provincial issue. It will be remembered that the financial difficulties of the provinces have made it necessary that the problem should be dealt with in some at least of its aspects, and that the Government extended to the Opposition (South African party) an invitation to an all-party conference for the formulation of an agreed policy, an invitation which General Smuts was unwilling to accept, if abolition was to figure on the agenda. It will also be remembered that in the past the Nationalist party has been the champion of provincial rights, that the South African party in Natal is almost solid in its eagerness to maintain its distinctiveness in the South African partnership, and therefore desires an extension rather than a restriction of the powers of the provincial councils, and that the supporters of the abolition movement have in the past come from the predominantly South African party urban centres in the other three provinces.

It has been clear for some time that those Ministers who have been brought most into contact with questions of Union-provincial relations have been veering towards abolition. The weaknesses of the system have come home to them in a manner which was not possible when they were in opposition. Administrative overlapping and confusion as between Union and provincial functions, the irritation caused by double taxation, the deadlocks resulting from a constitutional position in which executives are elected under proportional representation and not responsible to the councils that elect them—these things have created and strengthened in their minds a conviction of the inevitability of radical changes. They have come to regard the provincial

\* No. 84, September 1931, pp. 909-911.

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system as a concession to weakness, an excrescence on the rounded smoothness of the constitution which must be pared away.

But having come to this conclusion, Ministers were faced with a threefold difficulty. First there is the attitude of Natal—historically never quite in the main current of South African life—conscious of being the distinctively British province, suspicious of many of the manifestations of nationalism, possessed of all the determination of a self-conscious minority to resist anything that might lead to its being swamped and overwhelmed. Now that is an attitude of which political wisdom must needs take account. Natal was a party to the compact of twenty-one years ago which is embodied in the Act of Union. It was, indeed, the only one of the contracting parties that insisted on the holding of a referendum before it accepted that compact. That compact is, of course, not buttressed in South Africa, as is the case with similar compacts in other lands, with the ramparts of a rigid constitution. The Act of Union possesses a high degree of flexibility, imposing but few restrictions on Parliament's freedom in the matter of constitutional change. In other words, the compact was one, not of strict law, but of good faith. But even so the constitution does mark the fact that the provincial system was regarded as one of the important parts of the compact—for it is one of those features a proposed change in which must be reserved for the King's assent. Now that of course, in 1910, meant that the Government in Great Britain, which would then have had to advise the King on such a matter, had the last word, that it could in effect be appealed to on the ground that the proposal was a violation of the compact and of good faith. To-day that is no longer so—the Government of Great Britain cannot advise the King in a matter affecting South Africa alone—reservation survives as a mere form. It is for South Africa herself to decide whether or not the compact of good faith has been broken. Her privileges have grown since 1910. But that very fact

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connotes the growth also of her responsibility. The overriding by Parliament of the strongly expressed sentiments of one of the provinces—one of the partners to the compact—in an issue such as the provincial issue, is fraught with more, not with less, difficulty than it was twenty years ago.

Second among the difficulties in dealing with the provincial problem is the question of what is to come in the place of the councils if and when they are abolished. For, let it not be forgotten, the councils were "contrived a double debt to pay." They were a concession to the minority sentiment which favoured federalism twenty-one years ago—but they were also conceived as organs of local government. For in the whole of South Africa outside the Cape Province there were in 1910—and are still—no organs of local government except in the towns. Municipal government is in a relatively advanced stage in South Africa, but in the Transvaal, the Free State, and Natal there are no local government bodies in the purely rural areas—the hostility of the agricultural community to anything in the nature of local taxation, especially to a rate or a tax on land, has hitherto proved an insuperable obstacle. And since the central government of a country as large as South Africa could not deal with all the petty local affairs of the whole of its rural areas, the provincial councils and administrations were created to relieve it of that burden. As for their financial resources, these, apart from subsidies voted by Parliament, have come from taxation which has been borne chiefly by the towns. It is still only in the Cape Province that there is anything in the nature of a property tax outside the urban areas. Here, then, one of the difficulties in the way of abolition presents itself. After abolition—what next? A new and more extensive system of local government, or the concentration of the present provincial functions in the hands of the central government? The latter would mean a deplorable strengthening of the tendency towards bureaucratisation at which already South

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Africa has good reason to be alarmed ; the former, as soon as its implications are realised, is bound to evoke much opposition in the rural areas.

And that brings us to the third of the Government's difficulties—the party considerations involved. The Nationalist party is predominantly a country party, and as such its supporters have not been unduly conscious in the past of the burdens of the provincial system. As a party it defended that system in the days when the Smuts Government showed a tendency to impair provincial rights. How then was the Government to secure its support for a policy of abolition, especially when the inevitable realisation came that such a policy was likely to mean the imposition of new taxation burdens on a farming community already hard put to it ?

In the light of the above analysis of the difficulties, it will be obvious why the Government sought to remove the issue from the party arena. But having failed in that effort as a result of General Smuts's refusal of its invitation, it did not let the matter rest. It announced at the end of the session that the question would be dealt with during the recess. A month or two after Parliament rose it was bruited abroad that a policy had been decided upon. Ministers made cryptic references to their intentions ; the usual crop of rumours circulated ; gradually the stage was set for a declaration of policy, to be made by the Prime Minister himself at the annual Congress of the Transvaal section of the Nationalist party.

That declaration has to some extent cleared the air. It was, however, marked by hesitancy and a lack of precision. General Hertzog commenced by announcing that the Government had come to the conclusion "that the national interests demand that such changes be introduced as will centralise all necessary financial control under the Union Government." This, he went on to say, would entail the disappearance of the present provincial system, but he indicated "that provision should be made for an adequate

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system of devolution of administrative functions in regard to certain local matters." As for Natal, the Government was prepared to take account of its strong local sentiment, and to give it the option of retaining the provincial system. The Prime Minister, however, gave no information about the financial conditions on which Natal might retain its provincial council—obviously a point of great importance—or about the nature of the proposed system of devolution of administration. He did, however, state that the Government did not intend to introduce legislation in the life of the present Parliament. The matter would be left for the country to consider, and no constitutional change would be made until after the next election.

Since the Prime Minister's speech the matter has been dealt with in rather more detail by the Minister of the Interior (Dr. D. F. Malan), with whom the legislative responsibility for such matters lies. Dr. Malan's speech marks an advance in two respects. In the first place, he announced the Government's intention to appoint a commission of inquiry to frame a detailed scheme for an alternative system of local government; in the second place, he quite definitely rejected the possibility of the complete centralisation of provincial functions. "The Government," he said, "will not countenance the further centralisation of administrative functions." And he went on to declare that "local bodies, locally elected, and with a large measure of local responsibility, are the bulwark of a nation's independent character." Moreover, he recorded what he described as personal convictions, which implied *inter alia* the extension of the Cape system of rural self-government to the other three provinces, together with the imposition of local financial burdens on the rural communities in those provinces which do not carry them to-day. Thus far have the Government pronouncements hitherto made taken us. It is clear that they have revealed, rather than solved, the difficulties. The suggested option to Natal, though it has drawn the fangs of the opposition

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from that quarter, seems a dubious expedient. It would have the effect of perpetuating Natal's distinctiveness, of separating it more than ever from the main stream of the Union's life, of recognising it almost as a South African Ulster. There is much, it would seem, to be said for postponing a final settlement of the provincial problem until Natal is ready to be treated just like the rest of the Union. Moreover, while Natal's opposition has been bought off, the Government's own supporters have been even more difficult to deal with than was anticipated. Both the Transvaal and the Cape Nationalist Congresses refused to pass resolutions approving of the abolition policy, and adopted dilatory motions instead. The almost exclusively Nationalist Free State provincial council has taken up a severely critical attitude. The Nationalist party is very far from being united to-day in support of the new policy. And with the realisation of the significance of Dr. Malan's remarks as to the system of local government which should replace the councils, opposition seems likely to harden. Of the general soundness of his views there can be no doubt. The absence of local government bodies in the rural areas with a reasonable measure of financial responsibility is to-day the chief weakness in the Union's administrative fabric. But with primary products at present prices the time hardly seems opportune for a move in that direction—and it may even be that the precipitation of the issue at the present juncture will retard rather than accelerate what is otherwise a very necessary development in South Africa.

It is as well, therefore, that the Government is prepared to hasten slowly. A commission of inquiry is to be appointed, and legislation is not to be introduced until after the next election, which in the ordinary course will not take place before the middle of 1934. Many things may happen between now and then.

## The Problem of the Low Grade Mine

### III. THE PROBLEM OF THE LOW GRADE MINE

**A**S the question of the gold supply of the world is at present one of importance, it may be useful to look at an aspect of the production of gold which is at present attracting public attention in the Union—that is, the problem of the low grade mine. Expressed in other words, the question is whether, and if so how, the present costs of production can be so far reduced as to enable large areas of gold bearing rock, the gold content of which is not sufficient to admit of mining on the existing basis of costs, to be brought within the limit of payability.

A Government commission is at present sitting to consider this question. It is not the first time that such a commission has sat, and, unless the report of the present commission leads to more practical results than has been the case in the past, it is not likely to be the last. The object of this article is not to attempt to anticipate any conclusions to which the commission may be led, but to call attention to certain facts bearing on the present costs of production as disclosed in the very full and carefully prepared statements laid before the commission by the Transvaal Chamber of Mines.

Public opinion in the Union has been slowly but surely undergoing a change of outlook in regard to the gold mining industry of the Transvaal and its place in the national economy. The traditional attitude of governments and the public towards the gold mines, outside the circles of these more intimately associated with the industry itself, has been to regard these deposits as a sort of windfall, a buried treasure of uncertain dimensions, which was being exploited and appropriated largely by foreign capitalists, and of which accordingly it was the business of the State and the public generally to get as large a share as

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possible while it lasted. As the years went on, however, the forecasts of an early exhaustion of the gold bearing deposits have one by one been falsified. The output has gradually risen to its present figure of over £45 millions (calculated on the present gold content of the sovereign), and round it and depending on it the State expenditure, and the commercial and industrial system of the country, has grown to its present dimensions. The question which is now being forced upon public attention, therefore, is not to what extent the industry can be held to ransom, so to speak, by the tax collector or the private individual, but rather what can be done to preserve the industry as a vital part of our national economy for the longest possible time with the maximum output of gold.

It is recognised, at any rate in theory, that the life of the industry is in the nature of things limited. From time to time estimates have been made of the probable rate of decline of the output of the mines, but the period which they have set to the maximum activity and the life of the industry has so often been exceeded by the actual facts of production, that the public in general ceased to attach any importance to them. Lately, however, the fact that certain of the older mines have actually closed down, and that others, including some of the largest, have been unable for some time to show a profit on working, has given rise to a certain amount of anxiety on this point. The latest official estimate predicts that in 1940 the value of our gold production will have fallen from its present figure of £45 millions to £25½ millions and by 1949 to £10 millions. A decline in the gold output on this scale would involve a diminution in the consuming capacity of the country which no one likes at present to contemplate, and for which no one at the moment can see any compensating factor. The salaries and wages bill of the Witwatersrand gold mines for 1930 amounted to £15 millions, while their purchases of stores and so on totalled over £14½ millions, of which over £9½ millions were of South African produce or manu-

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factures. For the business and industry of a small community such as ours the importance of these figures is obvious.

It is well known that there are very extensive areas of mineralised rock on the Witwatersrand which are not capable of yielding a profit on the basis of present costs, and much of which, if they cannot be worked in the near future, will, in all probability, never be worked at all, if existing mines through which they could be worked are abandoned, and the shafts and underground workings fall into disrepair. The estimate of future production, which has been already cited, was made by the Government Mining Engineer early in last year, and in connection with it he stated that it had been estimated that, if costs could be reduced by 2s. per ton of ore milled, there would be no appreciable diminution of output for the next eight or ten years. If we take that in conjunction with his own estimate of a probable reduction on existing conditions between 1930 and 1940 of £18 millions, the importance and urgency of the question will be appreciated.

The main directions in which the Chamber of Mines look in the evidence placed by them before the commission for a reduction in costs are the following :—

1. A reduction in the wages of European workers based on the reduced cost of living since they were last fixed.
2. A revision of the Mining Regulations which would permit certain classes of work on which the mines are now compelled to employ highly paid European labour to be done, with (as they contend) equal efficiency and safety, by lower paid classes of labour.
3. Reduction of certain forms of taxation and of railway rates which, they maintain, are at present unfairly differentiated against the mining industry.
4. A reduction of the burden which the industry is at present carrying in the matter of compensation to the sufferers from miners' phthisis.

On the question of wages the Chamber has suggested a

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reduction of 5 per cent. The workers concerned have so far shown no sign of accepting such a reduction, and it is very doubtful if the companies would be in a position to enforce it, or would be supported by public opinion in any attempt to do so.

The complaint against the regulations is that they necessitate the employment of numbers of European workers underground who are unnecessary for the purposes of safety and health. What is aimed at is, no doubt, a relaxation of what is known as the "colour bar" regulations, which compel the employment of Europeans in certain classes of work where, if economical and efficient working were the only considerations, labour of a less highly paid type would be used. Here again it is more than doubtful if a demand for revised regulations would be supported by public opinion. It was the fear that the mines intended to replace European by coloured labour on a large scale that caused the disastrous upheaval in 1922. The present time, with unemployment existing on a serious scale, would not appear to be propitious for another test of public opinion on this question.

Differential taxation on the gold mining industry is in force in the case of income tax, which for mining companies is at the rate of 3s. in the pound as against a rate of 2s. 6d. for other companies. This is, of course, not an element in determining production costs, but it is complained of as a deterrent from the investment of capital in mining enterprises. Other imports which do affect costs of production are claim licences and native pass fees. The former constitute a form of taxation which has some justification in the case of claim-holders who are not actively working the ground held by them, but is quite an uneconomic form of taxing producing mines, as it is a mere addition to the costs of production bearing no relation to the results derived. The native pass fees are simply a *per capita* tax on the employment of native labour and have no justification except the amount of revenue that they

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produce. These two imposts together are estimated to involve a burden of about half a million pounds.

The complaint of the industry in regard to railway rates is briefly that the railway administration exacts inordinately high rates on the carriage of coal to the mines, and on explosives and other supplies required by them, in order to recoup itself for unpayable rates on the conveyance of other classes of goods—mainly agricultural produce. The complaint is one of long standing and is undoubtedly well founded. It is estimated that a revision of the railway rates on business principles, apart from political and other considerations, would lead to a reduction of £500,000 per annum in the rates charged on the stores used by the Witwatersrand gold mines.

The most serious individual burden on the industry is that involved in the compensation paid to miners suffering from miners' phthisis, and to the widows and dependents of miners who have died from that disease. This is borne wholly by the industry, and involves at present an annual levy of £800,000 which will probably in the near future have to be raised to £1,000,000. There is, in addition, an outstanding liability in respect of pensions to miners and dependents, the present value of which is calculated at about £8 $\frac{3}{4}$  millions. This has to be provided for by the companies so that funds may be available for meeting these liabilities after the mines in question have ceased to operate. The whole of this burden is laid on the industry in accordance with the ordinary principle of workmen's compensation legislation that an industry should be made responsible for compensation for the death or disablement of its workers. But the fact that compensation in this case takes the form largely of pensions to sufferers and to their widows and dependents, and that this form of compensation was made retrospective, means that the existing mines are bearing the financial burden of the effects of disease incurred by mines that have long since ceased to exist. The incidence of the disease has undoubtedly been reduced by the elaborate

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precautions now enforced to secure healthy working conditions underground, and by the strict medical examination now required as a condition of obtaining employment underground. But, taking this improvement at its best, it will be many years before a material reduction of the total cost can be looked for. In these circumstances it cannot be wondered at that a strong claim is put up by the industry that the State should assume a substantial share of the burden.

There is no space in this review to deal with the question of the supply of native labour. At present, owing to adverse conditions in the native reserves, this is not a serious question. But from time to time a shortage in the native labour complement causes serious anxiety to the mining companies, and they are insistently demanding permission to extend their recruiting field to territories north of latitude 22 degrees South, from which they are at present debarred by law.

The capacity of the industry to carry the various burdens imposed upon it by the policy of past and present governments has been obscured in the minds of the public by the phenomenal richness of some of the mines worked in the early days, by the large fortunes amassed by some of the leaders of the industry, and by a general illusion of wealth which the production of gold on a large scale appears to create. To-day, fortunately, a saner view is possible, both of the importance of the industry as a part of the national economy, and of the effect of heaping unreasonable exactions upon it. The idea that these exactions only affected the pockets of a few mine magnates and oversea shareholders has largely given place to a more accurate appreciation of the advantage, indeed the necessity, of prolonging the life of the industry. It has been said with truth that the whole industry is a low grade proposition. The average gold content of the ore at present worked is not more than about 6½ pennyweight per ton. Only the most scientific organisation, and the employment of the

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native for unskilled work, enable such ore to be worked at all. To relieve the industry of some of the unreasonable burdens which have been thrown upon it in the past, so as to bring within its scope extensive areas of at present unpayable rock, and to postpone to as distant a date as possible the inevitable period of its decline, has become one of the pressing problems of South African statesmanship.

South Africa.

October 21, 1931.

## NEW ZEALAND

### I. UNEMPLOYMENT

VALUABLE work was accomplished by Parliament during its emergency session in March and April, but this did not relieve it of the necessity of meeting again at the usual time for the second regular session. Unemployment, finance and the trade depression were the main burden of Lord Bledisloe's short opening speech on June 25, and a week had barely elapsed before the debate on the Address in Reply had to be interrupted to permit of the introduction of an Unemployment Amendment Bill as an urgency measure. When the principal Act was passed in September 1930, the number of registered unemployed was 6,099,\* the Unemployment Board which came into existence on November 20, 1930, had been spending money at the rate of about £24,000 a week, and by the end of last July there was an estimated deficit of about £200,000. More liberal provision was, in consequence, needed to meet an increased and steadily increasing demand. The 1930 Act had imposed a tax of 30s. a year upon every male of 20 and upwards, and, in addition, a subsidy from the Consolidated Fund equal to one half of the expenditure was to be paid into the Unemployment Fund. Under the new arrangement this flat rate will be reduced to 20s., but there will be a charge on salaries, wages and other income, of 3d. in the £, to operate as an emergency tax for one year only, and, though women will continue to be immune from permanent taxation under the principal Act, they

\* For full particulars of the Act see *THE ROUND TABLE*, No. 81, December 1930, p. 219.

## Unemployment

will not, except in certain cases, be exempt under the amending Act. It is estimated that the revenue accruing to the Board from these sources for the year ending next July will, taking into account the £ for £ subsidy, amount to £2,185,000, which is nearly double the income (£1,200,000) previously provided. The increase shows the urgent nature of the problem involved. Nor was there any serious opposition to the new measure. The *Evening Post*, on July 3, took the same line as *The Times* had taken in its comments on the proposals made by the General Council of the Trades Union Congress to the Unemployment Insurance Commission on May 4.

Contributors are (it said) to be brought in irrespective of their risk of unemployment and, broadly speaking, made to contribute in inverse proportion to that risk. There is to be no relation whatever between the contribution and the benefit of the individual.

Yet, even the *Evening Post* did not withhold its support. It recognised that something had to be done, and done at once, and that the Bill was "the only Bill that could have been introduced" in the circumstances. It was, it admitted, necessary, in spite of its defects on the score of equity, to prevent the gravest hardship.

It must, however, be recognised that our unemployment scheme is not really an insurance scheme at all, and although considerable liberties were taken by the legislature with the excellent report of the Unemployment Committee,\* this distinction was not lost sight of. On his return from the Imperial Conference the Prime Minister declared himself more strongly opposed than ever to the "dole," and the Commissioner, in his memorandum on the work of the Unemployment Board, emphasised "certain fundamental principles," in the following passage :

The Unemployment Fund (he reminded us) is made up by taxation levied over the whole of the community with certain few

\* See *THE ROUND TABLE*, No. 79, June 1930, pp. 667-8 and No. 81, December 1930, pp. 219-21.

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exemptions. It is not an insurance fund in the sense that there is a written contract specifying a premium and benefit. Beyond the fact that the funds must be used for the purpose specified, i.e., the provision of employment in various ways, no one is as of right entitled to any specific benefit. It is erected for the relief of the unemployed worker—the willing and able to work. It is not for the relief of any other kind of distress, caused by, say, age, infirmity, sickness, etc., nor for the relief of the farmer, the business man, nor for any other class than the unemployed worker seeking employment.

In the House of Representatives Labour members complained that the poor man was still paying too much and the rich man too little. But the rich man, in point of fact, pays heavily, not only through the emergency levy of 3d. in the £, but also through his graduated contributions to the Consolidated Fund which, besides supplying the Unemployment Board with half its revenue, pays liberally in other ways for unemployment. Relief works are moreover provided by the Public Works Department on a large scale, and on a smaller one by other departments. The figures of government expenditure under all heads last year are as follows :

	£		£
*Subsidy to Unemployment Board ..	159,247	Department of Lands and Survey ..	21,933
Public Works Department (including main highways)	1,249,446	Subsidies to local authorities ..	116,768
State Forest Service	85,000	Total ..	£1,632,394

The total expenditure for the last five financial years under these heads was as follows, during the calendar years which most nearly correspond to them :

	Expenditure		No. of registered unemployed
1926-27 ..	144,240	1926 ..	.. 1,196
1927-28 ..	482,221	1927 ..	.. 1,982
1928-29 ..	802,709	1928 ..	.. 2,504
1929-30 ..	1,415,592	1929 ..	.. 3,023
1930-31 ..	1,473,147	1930 ..	.. 5,055

\* This particular item was only for the last four months of the year.

## The Budget

During the current year over £2,000,000 may well be spent, as the Finance Minister estimates an increase in unemployment subsidies alone of £1,110,000. The unemployed at the end of the March and June quarters numbered 38,028 and 45,264 respectively, and the 50,000 mark was passed on August 29. The total on September 14 was 51,234, which would correspond to about 1,500,000 on the British scale.

In view of the continuous rise in the unemployment figures for the last five years, during three of which the Reform party was in power, and of the abrupt acceleration in the rate of increase during the current year, it seems almost incredible—especially as the same thing has been going on simultaneously all over the world—that even the blindest partisan of the Reform party should still put down the cause of the trouble or of any substantial part of it to the change from a Reform to a United administration at the end of 1928.\*

## II. THE BUDGET

IN introducing his second budget on July 30, Mr. Forbes indulged in a characteristic understatement. He described the current financial year as “probably the most difficult in the history of this Dominion.” If he had said “by far the most difficult,” few of his countrymen would have contradicted him. External trade, upon which the prosperity of the country chiefly depends, had for the first time—especially during the last few months—felt the full force of the world depression, and every source of revenue was badly affected. The changes in external trade during the last four years are shown by the following figures :

\* The most serious and least excusable of the United party's disservice was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men, and the 12s. 6d. to married men, but the original rates were restored by Mr. Forbes last April.

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Year ended March 31	Imports	Exports	Total External Trade
	£	£	£
1928 .. ..	44,419,000	54,962,000	99,381,000
1929 .. ..	45,106,000	57,154,000	102,260,000
1930 .. ..	49,168,000	49,046,000	98,214,000
1931 .. ..	38,301,000	39,528,000	77,829,000

Exports for 1930-31 were, it will be noted, no less than £9,500,000, or 19 per cent. below those of the previous year, and £17,600,000, or 30 per cent. below those of the year 1928-29. The explanation given by the Minister of Finance was very much the same as last year.

The decline in the value of exports was (he said) due principally to a further sharp fall in prices, the "all groups" export prices index showing a decline of over 28 per cent. for the year. The falling-off in value, however, was not the result of a reduction in the actual volume of exports, considerable quantity increases being shown in butter, frozen meat, and gold. Wool was the only important item showing a reduction in quantity, but this was due not to decreased production but to the carry-over of stocks in anticipation of an improvement in prices.

The decline in exports was unprecedented, but the drop in imports—£10,867,000—was even greater, and the year actually closed with a favourable trade balance of £1,227,000. In Mr. Forbes's words,

The equilibrium in external trade has been largely preserved, but the general contraction in the value of this trade has seriously affected the public finances, as well as all internal business, either directly or indirectly.

Customs duties, always the largest item of revenue, naturally accounted for most of the drop. The total revenue for the year 1930-31 amounted to £23,069,000, £2,051,000 below the estimate and £2,281,000 below the figure for the previous year. Of this deficit customs accounted for £924,000, and next to customs came interest on railway capital, a shortage "due to an unprecedented falling-off in passenger and goods traffic." On the other side of

## The Budget

the account the Government is entitled to credit for the fact that expenditure, £24,708,000, was £289,000 less than the estimate, which itself was £203,000 less than the expenditure for the previous year. But with a revenue of only £23,069,000, the net result was a deficit of £1,639,000. This was, however, a small matter in comparison with what might have been expected in view of the steadily accelerating rate of the decline for the last quarter of the year and the first quarter of 1931-32. In a detailed examination of the principal heads, Mr. Forbes gave reasons for supposing that all the revenue items were likely to shrink and all the expenditure items to rise. The following figures give the result of his calculation :

<i>Prospective Shrinkage of Revenue.</i>	<i>Prospective Increase in Expenditure.</i>
	£
Customs .. .. .. 2,030,000	Unemployment subsidies .. 1,100,000
Land and income tax .. 600,000	Debt services .. .. 350,000
Stamp and death duties .. 690,000	Pensions .. .. 200,000
Beer duty .. .. 115,000	Subsidies to local authori-
Railway interest .. .. 930,000	ties, etc. .. .. 125,000
Interest on Public Debt ..	Education .. .. 100,000
Redemption Fund .. 165,000	General Election .. .. 75,000
Other items (net) .. .. 280,000	Decrease in credits to votes 130,000
	Other items (net) .. .. 250,000
	<hr/> 2,330,000
	Less adjustment (equiva-
	lent to under-expenditure
	for 1930-31) .. .. 290,000
	<hr/> 2,040,000
4,810,000	

It was indeed, as the Finance Minister remarked, a "stupendous task," which faced the Government. With a steadily deteriorating market, they had to make provision for a prospective deficit equal to approximately 30 per cent. of the revenue for the preceding year, in other words, a gap of £6,850,000 had to be bridged. Of the measures taken to bridge it, the most effective and the soundest was the 10 per cent. cut in the salaries, allowances and wages of the public service, effected during the emergency

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session. A sum of £1,390,000 was saved in this manner. The postponement of war debt payments under the Hoover plan, which Great Britain has "with characteristic generosity" extended to the Dominions, accounted for £870,000.

Some of the other expedients to which Mr. Forbes was compelled to resort were admittedly of a more dubious character.

The state of the public finances during the current financial year (he said) is probably more serious than at any time during the past fifty years, if not during the whole history of the Dominion. Further, the economic position generally is such that it is imperative that increases in taxation be kept down to an absolute minimum. Under these circumstances the Government considers that this is a time when any reserves that can be legitimately drawn upon should be used.

It is, of course, obvious that the word "legitimately" begs the question, but members, notwithstanding the fact that there is no guarantee that the necessity will not be even greater next year, were not disposed to be hypercritical. And so the process known at Westminster as "robbing the hen roosts," but which sounds better under Mr. Forbes's more dignified title of "utilisation of reserve funds"—"convey the wise it call"—met with no serious challenge. Upwards of a million was obtained in this way—£550,000 from the Reserve Fund in London and £590,000 from the Discharged Soldiers Settlement Depreciation Fund. The full "summary of savings" was as follows :

	£
Reductions in salaries and wages .. .. ..	1,390,000
Benefit from suspension of funded debt payments ..	870,000
Other economies in expenditure .. .. ..	595,000
Post office surplus and other additional revenue ..	936,000
Use of reserves .. .. .. ..	1,140,000
Subsidies to local authorities, etc., to remain a charge on highways account .. .. .. ..	125,000
	<hr/>
	£5,056,000

But even so £1,794,000 was still needed to balance the budget, and to find it it was proposed to raise £730,000 by

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increasing the income tax. There was a 10 per cent. increase in this tax last year, and this was to be increased to 30 per cent. Further, the general exemption of £300 was to be brought down to £260, and in place of the more liberal scale hitherto prevailing, this exemption was to be reduced by £1 for every £3 of incomes between £260 and £560 and by £2 for every £3 of incomes between £560 and £800. The residue of £1,060,000 was to come from customs and excise, and the necessary provision was made by a series of resolutions passed immediately after the introduction of the budget. The most important tariff increases were tea 3d. per lb., sugar ½d. per lb., imported beer 1s. per gallon, cut and plug tobacco 1s. 4d. per lb. In the case of apparel, hosiery, carpets, etc. preferential and general rates were increased by 5 per cent. *ad valorem*, and in that of furs and silk piece goods, 10 per cent. was added to the preferential and general tariff rates. A primage duty of 3 per cent. was imposed on all goods otherwise free of duty, and the excise duties on cut and plug tobacco were increased by 1s. 4d. per lb., and those on beer by 6d. per gallon. The amounts expected from the increased duties (excluding the beer duty) were summarised by the Finance Minister as follows :

	£
Amount to be collected from duties hitherto in force	6,500,000
Amount expected from new duties on the under-mentioned articles (including surtax)—	
Tea .. .. .. .. .. .. ..	92,000
Sugar .. .. .. .. .. .. ..	220,000
Tobacco .. .. .. .. .. .. ..	180,000
Silk, imitation silk and artificial silk .. .. .. ..	42,500
Apparel and hosiery .. .. .. .. .. ..	86,000
Chinaware, floor coverings and gramophone records .. .. .. .. .. ..	62,000
Other items .. .. .. .. .. ..	47,500
Primage duty .. .. .. .. .. ..	180,000
	<hr/>
	£7,410,000

After making allowances for these increases in taxation

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and the above-mentioned economies and adjustments, the revenue for the year will, it was estimated, be as follows :

	£	Interest receipts—	£
Customs .. ..	7,410,000	Railway capital ..	930,000
Beer duty .. ..	650,000	Post Office capital ..	535,000
Film-hire tax .. ..	50,000	Public moneys ..	745,000
Motor vehicles—Duties and licences .. ..	1,760,000	Public debt Redemption Fund .. ..	820,000
Stamp and death duties .. ..	3,140,000	Miscellaneous—	
Land tax .. ..	1,100,000	Post Office Surplus ..	1,090,000
Income tax .. ..	4,230,000	From Reserves .. ..	1,140,000
		Other .. ..	1,346,000

The estimated grand totals for the year are as follows :

	£	£
Revenue .. .. .. ..		24,946,000
Expenditure—		
Permanent appropriations .. ..	17,679,904	
Annual votes .. .. ..	7,083,877	24,763,781

which leaves a surplus of £182,219 for the purpose of supplementary estimates and other calls.

The proposals of the Government at once excited the uncompromising hostility of the Labour party. The leaders of the Reform party, however, felt that the issues were far too complicated to permit of any off-hand determination of their attitude, and the Reform press was, as a whole, remarkably free from captiousness. Mr. Holland opened the attack on behalf of the Labour party with the declaration that customs are the most unscientific kind of taxation if you want revenue, that taxing articles like tea, sugar, linoleum and gramophone records meant putting the burden on the shoulders least able to bear it, and that the Government, which had promised to do its best to bring down the cost of living, was doing exactly the opposite. "An attack on the breakfast-table of the people" was, said another Labour member, the most remarkable feature of the budget. (The additional amounts to be raised by direct and by indirect taxation respectively are £780,000 and £1,000,000.) Mr. Forbes's reply was

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that the Government considered the method he proposed the fairest way of raising the money. It had, he continued, been said,

that the cost of living would be raised, but it had already fallen considerably since July 1914—and the full effect of the 10 per cent. cut had not yet been felt. The new duties on sugar would make a difference of .048 pence only. . . . The Government had not set out on a protective policy, but to obtain additional revenue.

In so far as the press is concerned the eulogy of the *Christchurch Times*, a United organ, and the unqualified detraction of the *New Zealand Herald*, a Reform paper, may be taken as representing the two extremes, but any lack of generosity in Reform journalism was fully redeemed by the *Christchurch Press*, which, though a thorough partisan of Reform, prefaced a by no means uncritical article with the following personal tribute :

It is due to the Prime Minister that the first thing said about the budget should be that it shows considerable courage. As he defined it, his problem was to cover a prospective shortage of almost £7,000,000 ; and he chose to do it in a single effort. He might have budgeted for a deficit. It is possible now to argue that this would have been the wiser course, and events may prove it with a very bitter logic ; but the Prime Minister's choice has at least these great merits. It will undoubtedly support the Dominion's credit and reputation at home, where both are worth money and a great deal more than money. It shows that the Government, having accepted relief to the extent of £870,000 from British taxpayers, is not going to be indulgent to its own. And third, there is the very strong point that in budgeting determinedly for a balance the Government spares no section ; while budgeting for a deficit would have provoked one section or another, or all sections, to complain of insufficient relief.

The wide-spread admiration which Mr. Forbes's courage and candour evoked also finds expression in an article entitled "a needs-must budget" in an Independent journal, the *Evening Post*.

A budget which adds 20 per cent. to income taxation and over a million sterling to customs and excise duties is a fair target for

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Opposition criticism. But at least this praise must be given to the Prime Minister : he has set himself a goal and has gone forward to it with unflinching determination. On the eve of an election he has resisted all temptation to temporise. He has given his opponents ample ammunition to use against him. In the budget there is not one promise of favours to come ; only the prophecy that if the people will face their difficulties with enterprise, thrift, and honest work they will soon reach a road leading to greater happiness and prosperity. This does not seem much to set against an additional £1,800,000 of taxation, and against the economy measures which may yet make greater inroads upon those government services which the people have become accustomed to expect. But can any other party honestly promise more ?

### III. COALITION AT LAST

THE movement for the amalgamation of the United and Reform parties has already been described in these pages.\* Three months ago it seemed to have reached a deadlock. Mr. Forbes, thanks to the loyal help of the Reform party, had, in spite of bitter opposition, just come through the emergency session with a fine legislative record and great personal credit, and he publicly extended to the Reform party and "others who have the interests of the Dominion at heart" an invitation to combine in order to form a national party to govern the country. On May 6 this invitation was peremptorily rejected by Mr. Coates. He proposed, however, that a small committee of his party should confer with Ministers before the introduction of new legislation. Three months later the matter appeared to have been carried no further. There was certainly no sign in the Reform organisation of disagreement with the attitude of their leader. A considerable body of independent opinion, however, which is not usually unsympathetic to the "Reform" cause, expressed its strong disapproval, and weighty memorials were sent Mr. Coates by business men, especially from Auckland and Wellington, urging him to reconsider his

\* See *THE ROUND TABLE*, No. 84, September 1931, p. 928.

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decision. His reply to a memorial from Wellington was published on August 18. The following extracts give its substance :

I find (wrote Mr. Coates) that the Reform party still holds the opinion that coalition, under existing political conditions, with the United party, either for general political objects or the formation of a Government, would not result in real union or promote stable government, and would not be of advantage to the country, which should be and is our first consideration. Parliamentary history provides precedents of similar combinations of political parties, but all have proved to be transitory and without stability or permanence. . . . After careful examination of the position, we feel that there is no practicable adjustment of the parties at present in the House which could give the strong government we and you equally desire. This object can be achieved only by the electors themselves at the next election.

Mr. Coates did not explain what would happen if the old irrational three-party fight should continue and the result again be an inconclusive verdict on the part of the electors. Nor did he seem to realise the suspicion which he had brought upon his party by his decision. Nowhere indeed was this put more clearly than in the *Press*, itself one of the staunchest of Reform organs.

It is absolutely imperative at present (wrote the *Press* on July 10, referring to Mr. Coates's vehement repudiation of the suggestion that he had been consulted about the Unemployment Bill) that those who approve the sacrifice should say so, and it would be a calamity if the impression were created that the Reform party is less eager to say so than it ought to be. Mr. Coates will have to be very careful if he is to prevent this impression from deepening. The Reform party is committed to co-operation so far as that can be given without violence to its principles, and while there can be no doubt of its help during what remains of this session, it must not allow anyone to say, or anyone to feel, that its real concern is with what follows the session.

Mr. Coates is in a more difficult position than the leader of any party has occupied within the memory of those still in New Zealand politics. The fusion offer, whether this was simplicity or craft, contained nothing when it was carefully examined but a suggestion that one leader should hold the other's hand while both took a leap in the dark. But very few people examined it carefully, or have

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examined it yet. . . . The danger (at the election) is not that a majority of the people want a Socialist Government. It is that those who do *not* want socialism may not have a clear opportunity of saying so. The danger that particularly threatens the Reform party is the fact that, if it is not very careful, it will find itself in a position in which it appears to be risking the fate of the community in a gamble for victory and power.

There is no reason (the writer went on to say) why Mr. Coates should not propose some common meeting ground, or at least indicate more plainly that he is willing to join in the search for one.

If he had done it sooner one might have supposed that Mr. Coates had this wise advice in view when, on August 21, he sprang a pleasant surprise on the country by moving the following resolution :

That, in the opinion of this House, the serious economic and financial position of this Dominion necessitates urgent and immediate action to cope with the fall in national income, as revealed by the latest figures, and the consequences arising therefrom ; that, with this object in view, it be a recommendation to the Government that representatives of the political parties should be called together in order to decide what remedial steps should be taken to adjust the national expenditure and to provide for equality of sacrifice and a proper distribution of the burdens ; that in arriving at its conclusions this committee should obtain the best expert advice and assistance from financiers and others ; that in order to enable such inquiry to be carried out Parliament should be adjourned for a short period and further consideration be given to the position when the committee reports to the House or the Government.

In ordinary circumstances such a resolution would, of course, have raised a question of no-confidence, but on this occasion it took the very line that the Prime Minister himself had suggested. Mr. Coates, moreover, explained that he had consulted the Prime Minister and the Leader of the Labour party before moving it. The main points in his speech were as follows :\*

The Reform party had had (he said) many conferences during the last fortnight before reaching a decision. There were two courses open to the party—one to go to an immediate election and

\* See *The Evening Post* of August 21.

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the other to arrive at the decision he had indicated. It was felt that it would occupy two months at least to go to an election, and the Reform party had decided that the time had arrived for all parties in the House to come together in an endeavour to meet the position. Therefore the suggestion that representatives from each party should meet in conference and with assistance of outside experts draw up a plan appeared to be the best course. . . . One of the reasons why the Reform party was so concerned was that it had been receiving SOS signals from farmers and others whose position was desperate. . . . They would be lucky if they were able to maintain the present prices.

He did not mean anything in the nature of pessimism, but just to indicate that the parties in the House might with advantage be called together to consider the whole position. There were those who said that New Zealand was in a better condition than Australia, and that was no doubt so, but there was a danger that the Dominion would drift into the position Australia was in. There had been a tremendous drop in imports, and even with the increased customs tariff it was doubtful whether it would reach the estimate. That factor must increase the difficulty of balancing the budget. The income tax estimates for the year appeared to be optimistic. The railway accounts showed a severe and alarming falling off. Then, members had to consider the strong probability of a difficult situation next year. . . . The Prime Minister had discussed the position with him, and also the Leader of the Labour party, and he was indebted to both Mr. Forbes and Mr. Holland for placing the matter before the House.

Mr. Forbes, on behalf of the Government, welcomed and seconded Mr. Coates's motion.

He could not (he said) but agree with the conclusion which had been arrived at by the Leader of the Opposition. He had felt for a long time that the financial position of the country could not be dealt with by a minority Government. First and foremost there was the question of the farmers' finances, and as the whole country's welfare depended on that industry, they must realise that everything hung on the welfare of the primary producer. That was a problem which loomed up very large. There was no doubt that the farmers' difficulties were multiplying and that they would go on multiplying, and that the House would have to give serious consideration to that problem. The Government's budget was a straight-forward and honest budget, but there was a serious weakness—the use of the reserves. When that happened it was necessary that they should have some plan for the future.

He looked upon the committee as a very valuable contribution

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to what should be done to meet the situation. The question of a plan for the future was very pressing. He thought all agreed that more definite measures should be taken than had already been adopted to meet the position. He welcomed the fullest investigation of the finances—public, local body, and private—by an independent committee, and if it brought down recommendations the House would have to consider them very seriously. He suggested that the committee should consist of three members from the Government, three from the Opposition, three from the Labour party, and one from the Independents. . . . One of the matters that the committee would have to look into would be the means of putting the measure through Parliament. The committee would also have to take into account the postponement of the elections. Labour voices : “ Oh ! ” Mr. Forbes said all questions facing the country, including the postponement of the elections, would come before the committee.

Mr. Holland announced that the Labour party would readily assent to the motion except that he did not agree to the proposal to adjourn the House. He also took strong exception to the Prime Minister’s suggestion that the general election, which is due in November or December, should be postponed.

He hoped that no section of the House would give a thought to the postponement of the elections. There could be no more grave breach of confidence of the people, and the Labour party would vigorously oppose any such move. Nothing would do more to spread discontent amongst the people.

Mr. Coates was willing to meet Mr. Holland’s objection to the adjournment, but he dashed any hopes that something better than inter-party consultation was in his mind.

His motion, he insisted, had not the intention of a national government ; a national government to him meant nothing. The job was what position had we got into and what was the plan necessary to remedy the situation.

After the reference to the adjournment of the House had been deleted the motion was carried without opposition, and the following committee of ten appointed : for the

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Government (United party), Mr. Forbes, Mr. Ransom, and Sir Apirana Ngata ; for the Opposition (Reform party), Mr. Coates, Mr. Downie Stewart, and Mr. Jones ; for the Labour party, Mr. Holland, Mr. McCombs, and Mr. Savage ; Independent, Mr. Wilkinson. The Committee held its first meeting on August 23 and spent about a fortnight in taking the evidence of bankers, financiers, economists, farmers, merchants and others. It then decided to devote the week ending September 16 to the preparation of its report.

Nobody was surprised at the failure of the parties to find common ground which Labour could also share, but few were prepared for the agreement between the two principal parties which the Prime Minister announced on September 18.

I desire to inform the House (he said) that the information given to the Special Economic Committee, which has been sitting for the past few weeks, has disclosed the necessity for immediate action being taken in regard to the finances of the Dominion. I am therefore pleased to announce that, as a result of conferences between representatives of the Opposition and the Government parties in the House, it has now been agreed to form a Coalition Government from the two parties. It is not possible for me to make a fuller statement at this stage, but I hope to be in a position to inform the House of the details and final arrangements on Tuesday next.

On a motion for adjournment Mr. Holland and other members of the Labour party expressed a good deal of indignation at the Prime Minister's announcement, mainly on the grounds that the Committee, as its name proved, had been appointed "to deal not with political considerations but the economic conditions of the country ;" that the deliberations of the Committee had been broken off by a purely political arrangement ; and that the intended postponement of the elections would amount to "a temporary political dictatorship" which would provide "all the elements for insurrectional movements." But the chief interest of the debate turned on Mr. Coates's attitude, for he had the key of the position the whole time in his

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own hand, and he had now put it to a use which he himself had apparently regarded as out of the question only four weeks before when he moved his motion. The crucial passages in his statement were as follows :

I as Leader of the Reform party am opposed and have been opposed to anything in the form of fusion, or shall I say coalition. My statements to the country were clear, and I was sincere in those statements. But the nature of the evidence placed before the Committee was enough for any man to be concerned about the immediate welfare of this country unless the problems were tackled immediately. Those problems must be tackled with determination and absolute fairness to every citizen of the country, and on a policy or programme calculated at least to bring about stability, confidence and, I hope, rehabilitation to the country. While we are discussing elections, while we are discussing this policy and that policy, we are not getting anywhere, and it is only from a very strong sense of public duty that I have asked my supporters and candidates—and they are behind me to a man—to carry through a programme of legislation the nature of which has been discussed with members of my party and with the Prime Minister and his group, and there is general agreement as to the necessity for action being taken without any further delay. If we fail to take that action we shall be neglecting our duty to the people of this country. . . . It must be remembered that this arrangement which has been made is a combination which does not destroy either party. Since it cannot be a national arrangement it is a coalition for the purpose of passing legislation that both parties deem essential and necessary in the interests of the country.

Mr. Forbes will, it is announced, still be Prime Minister ; and Mr. Coates Leader of the House. The number of Ministers will be reduced from 14 to 10. It is, however, already obvious that an effort will be made by Reform die-hards to minimise the benefit of coalition by preventing the postponement of the general election, and thus limiting the term of the new Government to about two months.\*

\* On September 22, the day after this article left New Zealand, the Forbes-Coates Government was sworn in, with Mr. Forbes as Prime Minister and a Cabinet of ten. Mr. Forbes explained that it was necessary to have a strong Government to take immediate steps towards financial rehabilitation. The postponement of the election was a matter for the new Government to decide. Parliament would adjourn till October 2, and the Government would announce its full policy on October 6. Some of the proposed measures, Mr. Forbes added, could not wait for a general election. On October 23 Mr. Forbes announced that it had been decided not to

## The Statute of Westminster

### IV. THE STATUTE OF WESTMINSTER

“**N**O carping criticism” were the words used by Mr. Coates in describing New Zealand’s attitude towards Great Britain on the eve of the 1926 Imperial Conference. In exactly the same spirit Mr. Forbes, though an opponent of Mr. Coates in local politics, declared that New Zealand had “no complaints and no demands” to bring before last year’s Conference.

I wish (he said in the House of Representatives on August 17, 1930) to make it plain at the outset that the present Government share in no less measure than previous Governments the traditional attitude of New Zealand towards the United Kingdom. We value very highly our continued association with the Mother Country, and it is our wish to maintain this association as close and as intimate as possible both politically and economically. . . . We have not in any way been embarrassed by the terms of our association with His Majesty’s Government in the United Kingdom, nor have we been restricted in the control of our affairs.

It is not disputed that Mr. Forbes, New Zealand’s representative at the 1930 Conference, was true to the spirit of this declaration, and faithfully maintained the tradition established by all his predecessors, regardless of party. The only complaint against him is that he gave an exaggerated idea of the importance which New Zealand attaches to Imperial preference, and that he interfered at times in a controversy which is a burning issue in British domestic politics, in a manner which no British Minister would dream for a moment of imitating where a Dominion was concerned. Certainly the public opinion of the Dominion would not tolerate it if he did. The second, and the more important, of these criticisms was well put by Mr. Downie Stewart during the debate on the report of the Imperial Conference on July 21.

My view of the matter (said Mr. Stewart) is that he (the Prime

postpone the general election. The Government felt it imperative that its policy of sound finance should have the country’s emphatic endorsement. Mr. Coates announced that the Reform and United parties would not break apart for the election campaign. It is believed that the election will be held on December 9. (See *The Times*, September 23 and October 24, 1931.)

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Minister) and his colleagues were quite entitled to put forward their viewpoint ; but, when it meant going right across the traditional free-trade policy of Great Britain, it was a little hard on the British Ministers to be openly accused of wobbling and quibbling. That appeared to me not to be very good form. Supposing an Imperial Conference were being held in Australia or New Zealand, and the representatives of Great Britain urged us to remove all our customs tariffs, and, on our refusing to do so on the ground that it was our traditional policy to raise revenue and protect our industries by a tariff, they indulged in remarks such as were used in England by some of the Dominion Ministers. I do not think that would tend very much towards promoting Imperial unity.

With this exception, however, the propriety of the Prime Minister's attitude was not impugned, and the harmony of the general approval was marred by no party differences. His action with regard to the Statute of Westminster was not merely approved, but highly commended. Not a voice was raised, either in the Legislative Council or in the House, to claim for New Zealand the powers which are to be extended by this Statute to the other Dominions. Yet both Chambers were able unanimously to pass the petition to the King advocating the Statute, because, at the instance of Mr. Forbes, New Zealand had been specifically excepted from its operation until such time as she elects to adopt it, a provision which elicited a handsome compliment from a political opponent of Mr. Forbes.

The exception of New Zealand from the effect of the Statute which is to be passed at Westminster (said Sir Francis Bell in the Legislative Council on July 23) is a tribute to the loyalty of this country, and a still greater tribute to the men who have had the courage and foresight to advocate it. I am sure that, in days to come, my honourable friend the Attorney-General will have the enduring satisfaction that he, as must be the case, advised, and the Prime Minister adopted, a provision in this Statute to be passed by the Imperial Parliament at Westminster which has the effect of declaring that New Zealand is not one of the Dominions that seeks to hold power or right beyond her territorial limits, or to enter into relations with foreign Powers except through the ambassadors of His Majesty.

New Zealand.

September 21, 1931.

